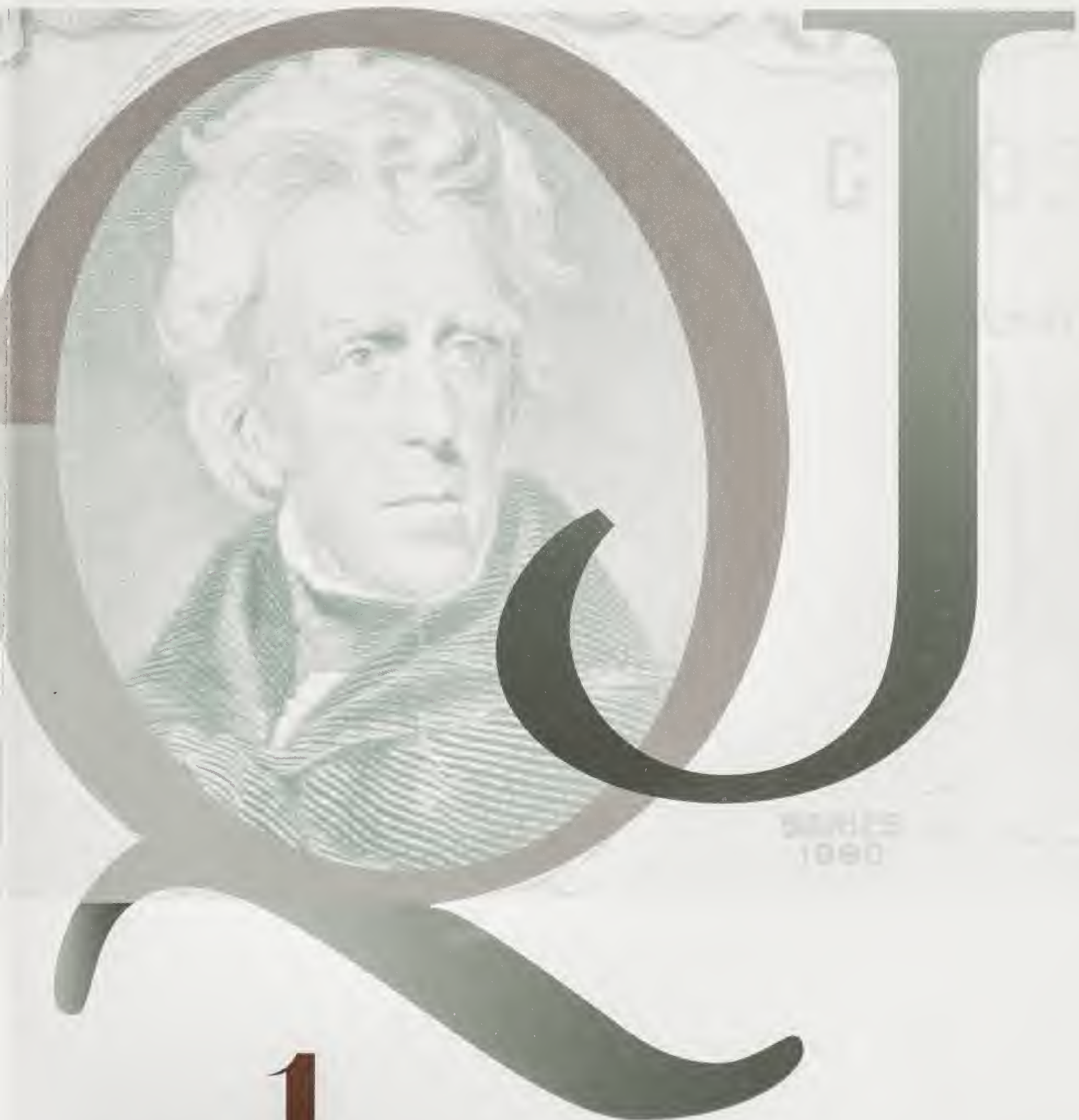
Comptroller of the Currency
Administrator of National Banks

VOLUME FOURTEEN

Quarterly Journal



number 1

Office of the Comptroller of the Currency
March 1995

Comptroller . . . . Eugene A. Ludwig

Policy Group

Chief Counsel . . . . Julie L. Williams
Senior Deputy Comptroller for Administration . . . . Judith A. Walter
Senior Deputy Comptroller for Bank Supervision Operations . . . . Stephen R. Steinbrink
Senior Deputy Comptroller for Bank Supervision Policy . . . . Susan F. Krause
Senior Deputy Comptroller for Corporate Activities and Policy Analysis . . . . Frank Maguire
Senior Deputy Comptroller for Economic Analysis and Public Affairs . . . . Konrad S. Alt
Senior Deputy Comptroller for Capital Markets . . . . Douglas E. Harris
Senior Policy Advisor to the Comptroller . . . . David P. Apgar

Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term.

The OCC regulates national banks by its power to:

- Examine the banks;
- Approve or deny applications for new charters, branches, capital or other changes in corporate or banking structure;
- Take supervisory actions against banks that do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing banking practices, and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into six geographical districts, with each headed by a Deputy Comptroller.

The Office is funded through assessments on the assets of national banks.

The Comptroller

Eugene A. Ludwig took the oath of office on April 5, 1993, as the 27th Comptroller of the Currency.

By statute, the Comptroller serves a concurrent term as Director of the Federal Deposit Insurance Corporation and the Neighborhood Reinvestment Corporation. The Comptroller also serves as a member of the Federal Financial Institutions Examination Council.

Mr. Ludwig joined the OCC from the law firm of Covington and Burling in Washington, D.C., where he was a partner beginning in 1981. He specialized in intellectual property law, banking, and international trade. He has written numerous articles on banking and finance for scholarly journals and trade publications, and served as a guest lecturer at Yale and Harvard Law Schools and Georgetown University's International Law Institute.

Mr. Ludwig grew up in York, Pennsylvania, where he attended York Suburban High School. He earned a B.A. magna cum laude from Haverford College in Pennsylvania. He received a Keasbey scholarship to attend Oxford University, where he studied politics, philosophy, and economics and earned a B.A. and M.A. He holds an LL.B. from Yale University, where he served as editor of the Yale Law Journal and chairman of Yale Legislative Services.

The *Quarterly Journal* is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year in March, June, September and December. The *Quarterly Journal* includes policy statements, decisions on banking structure, selected speeches and testimony, material released in the interpretive letters series, statistical data and other information of interest to the administration of national banks. Suggestions, comments or questions on content may be sent to Claire Emory, Senior Writer/Editor, Communications Division, Comptroller of the Currency, Washington, D.C. 20219. Subscriptions are available for $60 a year by writing to Publications—QJ, Comptroller of the Currency, Washington, D.C. 20219.

Quarterly Journal

Office of the Comptroller of the Currency

Eugene A. Ludwig

Comptroller of the Currency

The Administrator of National Banks

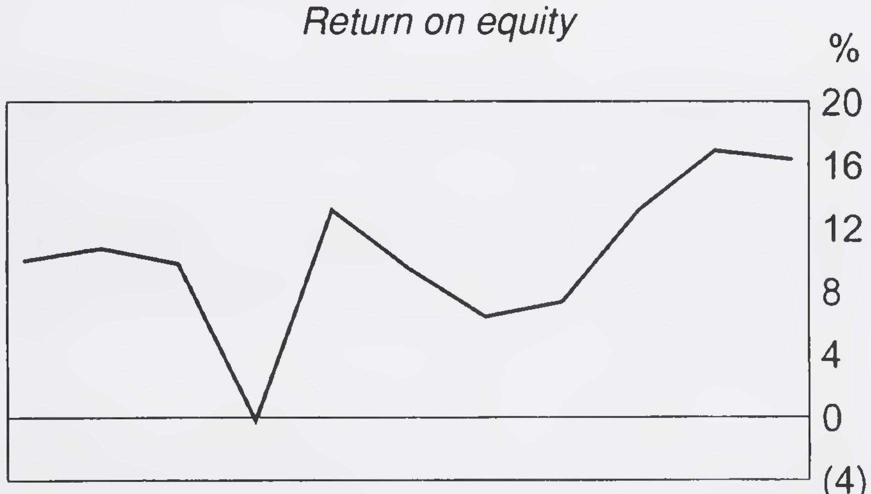
Contents

Operations of National Banks

National Bank Earnings in 1994

National banks reported record earnings for 1994 of $26.8 billion, an increase from the previous record of $25.7 billion in 1993. The return on equity (ROE) for the national banking industry was 16.3 percent, a slight decline from the 16.9 percent reported for 1993. Return on assets (ROA) declined by 2 basis points from 1.28 percent in 1993 to 1.26 percent. Both the return on equity and the return on assets, however, remained historically high.

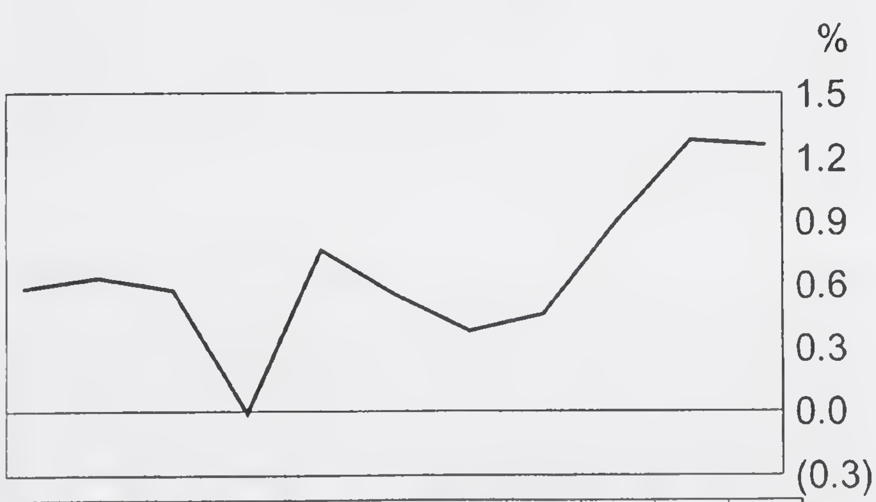
Return on equity



1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
9.96	10.72	9.75	(0.21)	13.15	9.45	6.40	7.34	13.13	16.89	16.34

Source: call reports

Return on assets



1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
0.58	0.63	0.57	(0.01)	0.76	0.55	0.38	0.46	0.90	1.28	1.26

Source: call reports

ROE changes across the districts were evenly divided in 1994. ROE decreased in the Northeast, Central, and Southwest districts, with the largest decline reported in the Southwest. The Southeast, Midwest, and West districts reported increases in ROE in 1994, with the greatest increase in the West.

The largest national banks, those with assets greater than $10 billion, reported a decline in ROE from 16.71 percent to 16.14 percent. These institutions, as of the end of 1994, represented 57 percent of the assets of the national banking industry. The ROE for the smallest banks — those with less than $100 million in assets — declined from 11.90 percent to 11.87 percent; these banks represented 4 percent of the assets of the national banking system, a decline from 5 percent in 1993. Institutions with greater than $100 million but less than $1 billion in assets reported an increase in ROE from 14.92 percent in 1993 to 15.06 percent in 1994.

Fourth Quarter Earnings

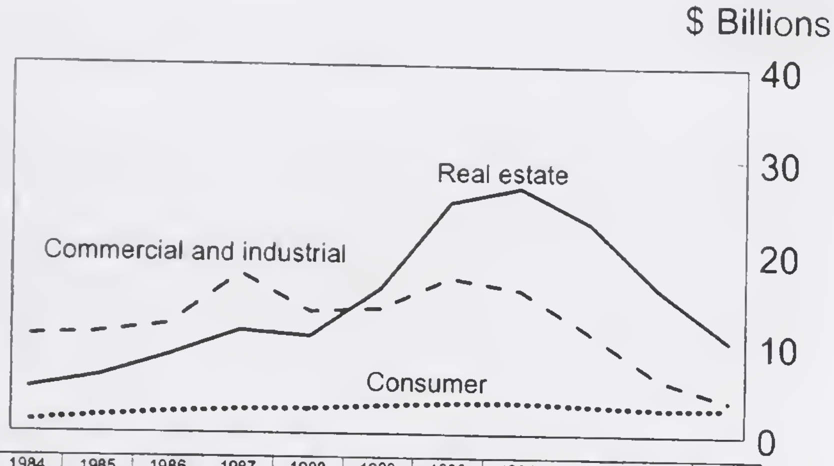
Net income for the 3,078 national banks reporting in the fourth quarter of 1994 was $6.9 billion, a slight decline from $7.1 billion reported in the third quarter. ROE was 16.1 percent in the fourth quarter compared to 16.8 percent in the third quarter. ROA also declined in the fourth quarter by 6 basis points from 1.30 percent in the third quarter. Four percent of national banks reported net losses in the fourth quarter compared to 4.9 percent in the fourth quarter 1993.

Major Components of Earnings

The record earnings for 1994 were largely due to improvement in asset quality and the corresponding decline in loss provisioning and the higher net interest income. These gains more than offset the reported losses on securities sales, the first annual losses on security sales since 1984.

Asset quality/loss provisioning. Asset quality continued to improve for the national bank sector in 1994. Noncurrent loans to total loans declined from 2.1 percent in 1993 to 1.3 percent in 1994. Improvements were reported in all of the major loan categories: Noncurrent real estate loans to total real estate loans declined by 118 basis points, noncurrent C&I loans declined by 73 basis points, and noncurrent consumer loans declined by 14 basis points for the year.

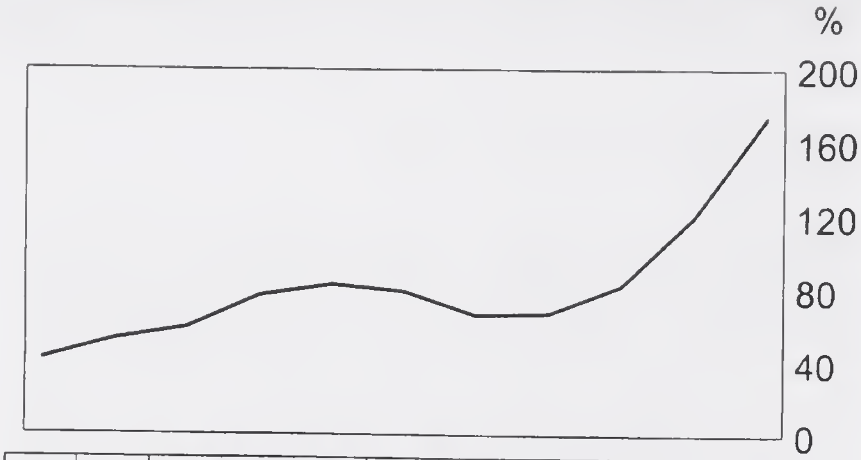
Noncurrent loans by type



	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
RE —	4.90	6.20	8.50	11.20	10.60	15.90	25.30	26.90	23.10	15.90	10.30
C&I —	10.60	10.90	11.90	17.50	13.30	13.70	17.10	15.80	11.10	6.10	3.80
Cnsmr •••	1.30	1.90	2.30	2.60	2.70	3.10	3.40	3.50	3.20	2.90	3.00

Source: call reports

Loss reserve to noncurrent loans



1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
41.26	52.02	58.79	76.68	82.84	79.11	66.02	67.17	82.44	119.89	173.78

Source: call reports

The fourth quarter 1994 was a continuation of this general theme: The noncurrent loan ratio declined an additional 18 basis points. Improvements in asset quality were reported for all of the major loan categories.

The noncurrent loans to total loans ratio for all districts and for banks in all asset size categories mirrored the aggregate national bank data. All districts reported a significant decrease in the noncurrent ratio in 1994, with the largest improvement in the West, which declined from 2.7 percent to 1.5 percent. A decrease in the noncurrent loan ratio was reported for all of the major loan categories for all districts. By asset size, the largest decline in the noncurrent loan ratio — 94 basis points — was reported by institutions with $10 billion or more in assets.

The ratio of loss reserves to total loans for the national banking industry decreased from 2.5 percent in 1993 to 2.2 percent in 1994, due to the decline in loss reserves as well as the significant growth in loan activity over the year. Loss reserves to total loans have been decreasing on a quarterly basis since the first quarter of 1993. The trend continued in the fourth quarter 1994, with a further decline of 10 basis points.

At the same time, with the substantial improvement in loan quality, the loan loss reserves to noncurrent loans increased 53.9 percentage points in 1994. The upward trend on the reserves to noncurrent loan ratio, which began in the third quarter of 1991, was maintained in the fourth quarter of 1994. The ratio was 159.9 percent in the third quarter compared to 173.8 in the fourth quarter.

The significant increases in asset quality corresponded to a $3.7 billion decline in loss provisioning in 1994. This reduction in loss provisioning was a major source of national bank earnings in 1994.

The decline in loss provisioning for the national banking industry began in 1992. On an annual basis, a trend seems to emerge. On a quarterly basis, however, loss provisioning has fluctuated.

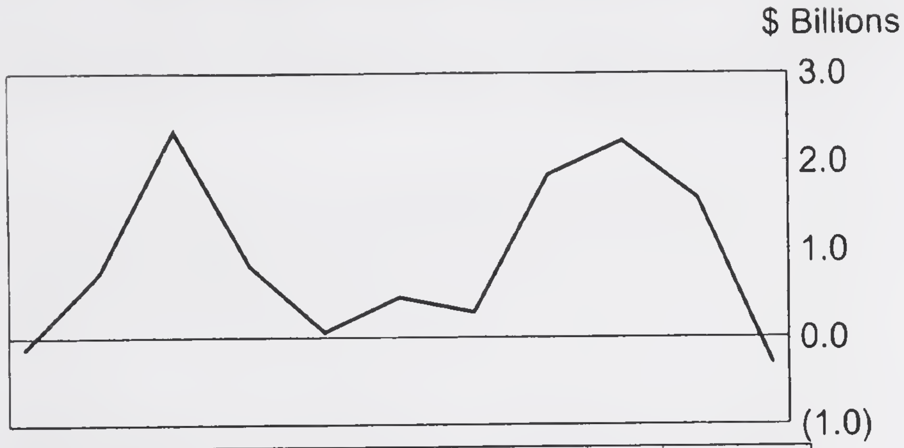
For example, the industry reported an increase in loss provisioning of $104 million in the fourth quarter of 1994, while in the fourth quarter of 1993 provisioning decreased by $98 million and in the fourth quarter of 1992 it decreased by $692 million.

Net interest income. Net interest income was a record $84 billion in 1994, an increase of $3.9 billion for the year. Interest income continued to grow faster than interest expense: interest income increased by $4.8 billion for the year, while interest expense increased by only $0.9 billion. In the fourth quarter of 1994, the difference narrowed considerably: Interest income grew in the fourth quarter by $3.1 billion and interest expense by $2.3 billion.

Net interest margin for the national banking industry decreased 4 basis points from 1993 to 1994. Two districts, however, reported an increase in net interest margin for the year, the Midwest with an increase of 20 basis points and the Northeast with an increase of 6 basis points. All other districts reported a decline.

Gains/losses on securities sales. For the first time in 10 years, the national banking industry reported net losses on sales of securities not held in the trading account of $303.9 million for 1994. This was in contrast to the $1.58 billion gain on securities sales reported in 1993.

Net gains/losses on securities sales



1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
(0.12)	0.74	2.34	0.82	0.06	0.46	0.29	1.84	2.23	1.58	(0.30)

Source: call reports

The increase in interest rates began to adversely affect security sales in the second quarter of 1994, with a relatively small gain on sales for the industry as a whole in that quarter. The national banking industry then reported losses in the third and fourth quarters of 1994, of $207.2 million and $549.3 million, respectively.

Noninterest income/noninterest expense. Noninterest income was $45.9 billion for 1994, an increase of $0.5 billion or 1.2 percent. The increase was attributed largely to the growth in fee income in 1994 relative to 1993. Noninterest income for the fourth quarter 1994, however, was $12 billion, a decrease of $0.1 billion from the third quarter due to a decline in income from trading account activities.

Noninterest expense increased by $1.7 billion in 1994. This compares to increases of $4.2 billion and $3.2 billion in 1993 and 1992 respectively. Much of the increase in 1994 was in the fourth quarter; noninterest expense in the fourth quarter was $22.65 billion, up $1.3 billion from the third quarter.

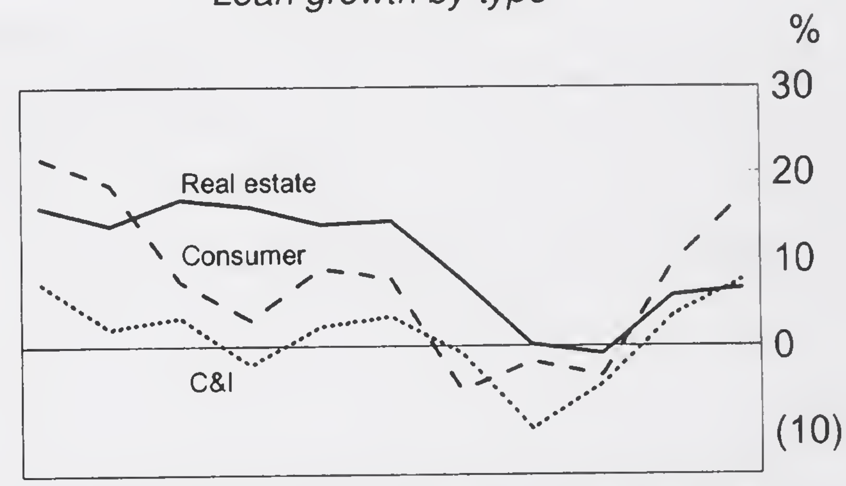
Changes in Assets

The assets held by the national banking system increased from $2,102 billion as of the end of 1993 to $2,258 billion at the close of 1994, a growth rate (not adjusting for mergers and acquisitions) of 7.4 percent. This compares to an asset growth rate of 4.7 percent in 1993 and 1.1 percent in 1992.

Assets held by the national banking sector grew by $54 billion in the fourth quarter, a growth rate of 2.5 percent compared to 0.8 percent in the third quarter and 2.0 percent one year ago.

Loan activity. Loan growth continued to be a major component of asset growth in 1994: Loans held increased by $114 billion or 9.0 percent. Loan growth was reported for all of the major categories. Real estate loans grew by 6.6 percent in 1994 (although real estate construction loans declined), C&I loans grew 7.6 percent, and consumer loans grew 17.1 percent.

Loan growth by type



	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
RE —	16.01	13.91	16.89	16.03	14.00	14.39	7.63	0.16	(0.93)	5.78	6.62
C&I ···	7.35	2.03	3.31	(2.20)	2.27	3.38	(0.82)	(9.64)	(4.48)	3.49	7.58
Csmr —	21.67	18.58	7.45	3.03	8.92	7.73	(5.17)	(1.83)	(3.45)	9.38	17.12

Source: call reports

For the fourth quarter, the industry reported an increase of $50 billion in loans held, a growth of 3.7 percent. The largest change for the quarter was the $17 billion increase in consumer loans — a growth rate of 6.12 percent compared to 3.9 percent in the fourth quarter 1993. Real estate loans have been growing at over 2 percent for the last three quarters of 1994. The growth rate for the fourth quarter was 2.6 percent. C& I loans increased 2.4 percent in the fourth quarter compared to 1.8 percent in the third quarter and 1.6 percent one year ago.

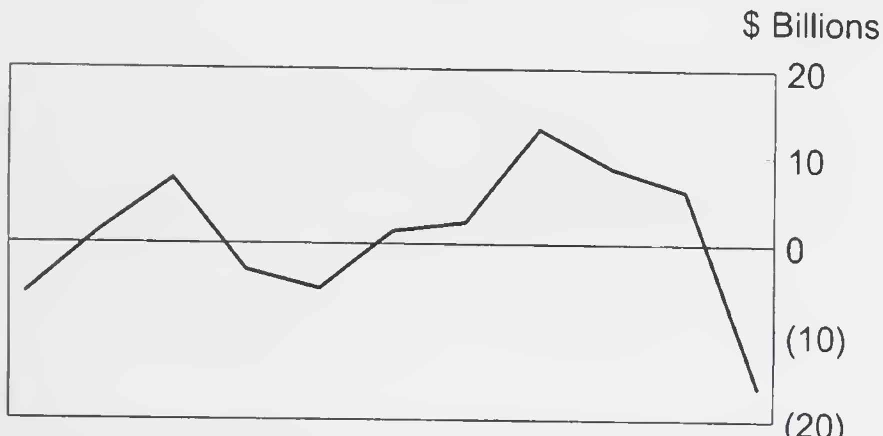
Securities holdings. Securities not held in trading accounts declined over the year by $23 billion to $414.3 billion as of the end of the fourth quarter 1994. Reductions in securities holdings were reported for both treasury securities and mortgage-backed securities.

The shrinkage in securities holdings began in the second quarter of 1994, with the increase in interest rates. The growth rates in securities holdings for 1994 were 2.18 percent in the first quarter, and then -1.48 percent, -2.54 percent, and -3.39 percent in the second, third, and fourth quarters respectively.

Market value of securities. The continued rise in market interest rates through 1994 eroded the market value of national bank securities holdings, with relatively large

adjustments in the second, third, and fourth quarters. As of the end of 1994, the market value of securities holdings was below their book value by $16.16 billion. The corresponding declines in the second and third quarters were $8.0 billion and $10.3 billion, respectively.

Market value minus book value of securities



1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
(5.58)	1.40	7.33	(2.95)	(5.04)	1.44	2.45	13.07	8.63	6.04	(16.16)

Source: call reports

Off-balance sheet activities. Many analysts have argued that the evaluation of bank market share based solely on traditional assets, such as loans and securities holdings, is misguided, because banks are increasingly providing services in nontraditional activities. Off-balance sheet activities of national banks, one measure of these nontraditional activities, have been growing substantially over the last 10 years. The notional value of derivatives held as of the end of the fourth quarter 1994 was $7,415.7 billion, a $1,981.3 billion increase over the last year alone. Unused loan commitments also increased in 1994 from $927 billion to $1,141.8 billion, an increase of $215 billion, of which $139.6 billion was an increase in credit card activity. By contrast, standby letters of credit remained relatively steady at $102 billion, an increase of $3 billion over the level reported at the end of 1993; the level, as of the close of 1994, was comparable to the level of activity reported in 1988.

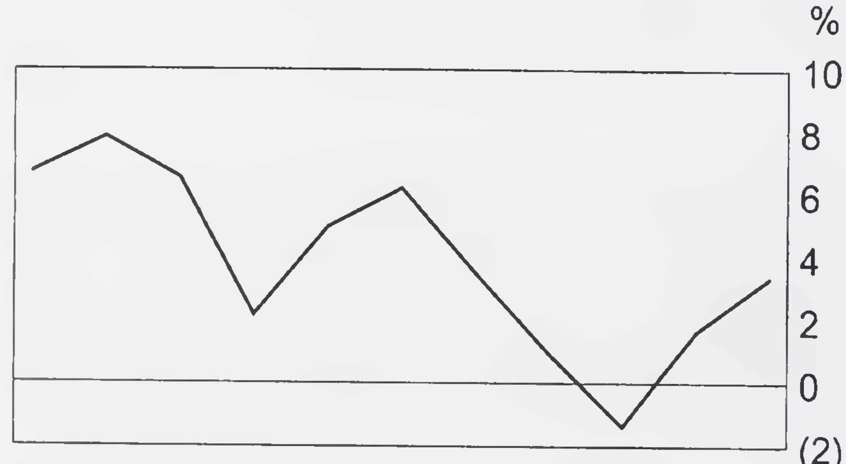
Changes in Liabilities

Total deposits. The level of total deposits for the national banking sector was $1,630 billion in the fourth quarter 1994. This was an increase of $53 billion from the fourth quarter 1993. As of the end of 1994, national banks held 56.7 percent of total commercial bank deposits compared to 57.3 percent at the end of 1993.

Total deposits grew in the fourth quarter at a rate of 3.35 percent. The increase in deposits was reported for all categories: Core deposits grew by $27.4 billion, large time deposits by $4.6 billion, and foreign deposits by $23.5 billion.

Purchased liabilities. Purchased liabilities continued to be an increasing source of funds for national banks. Purchased liabilities increased from 1993 by $50.7 billion to $322.9 billion as of the end of 1994. This trend was sustained in the fourth quarter with an increase of $8.9 billion. Purchased liabilities as a percent of assets has increased from 13 percent in 1993 to 14.3 percent at the end of 1994.

Total deposit growth



1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
6.70	7.82	6.51	2.16	4.97	6.19	3.52	0.94	(1.37)	1.64	3.35

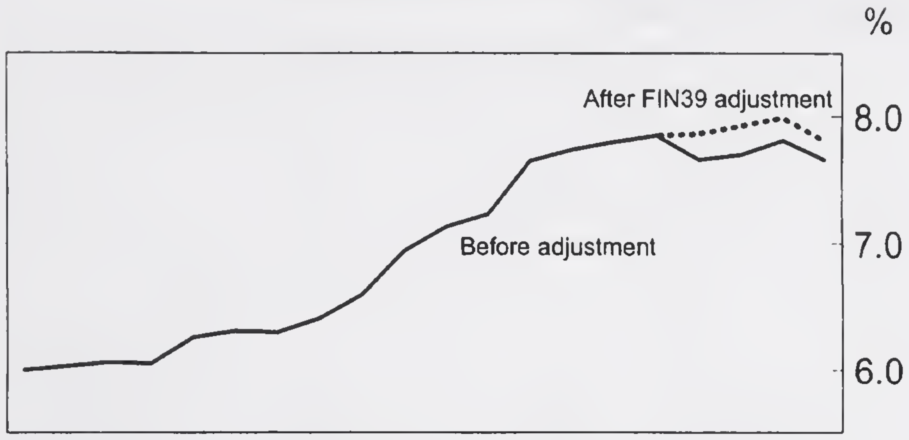
Source: call reports

Capital

Equity capital for the national banking system was $173 billion, an increase of $8.0 billion in 1994. Equity capital for national banks has been increasing since 1987. On a quarterly basis, equity capital has been increasing at an average rate of 5.5 percent in the 1990s. For the fourth quarter 1994, equity capital grew 0.6 percent.

The equity capital to assets ratio declined from 7.81 percent in 1993 to 7.66 percent in 1994. Note, however, that the FIN 39 accounting rule, established in 1994, required banks to report swaps contracts in their trading assets and liabilities accounts rather than netting these contracts on the asset side of the balance sheet. The effect of this rule was to increase the assets and lower the equity capital ratio. After adjusting for the accounting change, the equity to assets ratio was 7.8 percent in the fourth quarter 1994.

Equity capital ratio



1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
6.00	6.03	6.06	6.05	6.26	6.31	6.30	6.41	6.60	6.94	7.13	7.23	7.65	7.74	7.80	7.85	7.66	7.70	7.81	7.66
															7.85	7.86	7.92	7.99	7.81

1990 1991 1992 1993 1994

Source: call reports

The leverage ratio, having increased for the last five years, appears to have leveled off at 7.4 percent as of the end of 1994. Similarly, the risk-based capital ratio has plateaued: this ratio was 12.4 percent as of the end of 1994, compared to the 12.5 percent for 1993.

Financial and Statistical Analysis

Jayanthy Eswar-Rao
Rosemarie Foley
Sandra Hernandez
Jean Lee

Aggregate performance data for national banks
(Data through fourth quarter of each year)

	1989	*1990*	*1991*	*1992*	*1993*	*1994*
Industry structure						
Number of banks	4,175	3,978	3,789	3,599	3,319	3,078
Number of banks with losses	649	616	510	274	164	121
Number of failed/assisted banks	111	96	44	34	23	3
Income Statement ($ Billions)						
Year-to-Date:						
Net income	10.47	7.40	8.98	17.39	25.70	26.84
Net interest income	67.21	67.62	70.84	76.64	80.26	84.12
Noninterest income	32.86	34.84	36.55	39.96	45.38	45.90
Noninterest expense	66.31	70.43	74.85	78.06	82.28	84.02
Loan loss provision	18.29	21.00	21.93	15.56	9.22	5.56
Gains on securities sales, net	0.46	0.29	1.84	2.23	1.58	–0.30
Extraordinary income, net	0.32	0.28	0.72	0.35	1.68	–0.04
Net loan loss	15.05	18.93	21.08	15.80	10.08	6.02
Fourth Quarter:						
Net income	0.03	0.06	2.27	4.41	6.60	6.90
Net interest income	17.09	17.79	18.57	20.38	20.59	22.38
Noninterest income	9.15	9.54	10.05	10.42	12.05	11.95
Noninterest expense	17.70	19.40	20.35	21.09	21.50	22.65
Loan loss provision	7.77	7.48	6.57	3.52	2.02	1.39
Gains on securities sales, net	0.15	0.16	0.89	0.39	0.15	–0.55
Extraordinary income, net	0.01	0.18	0.31	0.10	0.13	0.00
Net loan loss	6.20	5.57	5.70	4.19	2.75	1.71
Performance Ratios (%)						
Year-to-Date:						
Return on equity	9.45	6.40	7.34	13.13	16.89	16.34
Return on assets	0.55	0.38	0.46	0.90	1.28	1.26
Net interest margin	3.53	3.48	3.63	3.97	3.99	3.96
Loss provision to loans	1.49	1.68	1.78	1.33	0.76	0.43
Net loan loss to loans	1.23	1.52	1.71	1.35	0.83	0.46
Noncurrent loans to loans	3.22	4.05	4.09	3.36	2.07	1.29
Loss reserves to loans	2.55	2.68	2.75	2.77	2.48	2.24
Loss reserves to noncurrent loans	79.10	66.02	67.17	82.44	119.89	173.78
Loans to assets	64.36	64.33	62.02	59.55	60.45	61.32
Loans to deposits	84.62	82.04	78.26	77.02	80.57	84.94
Equity to assets	5.75	6.05	6.41	7.23	7.85	7.66
Estimated leverage ratio	N/A	5.73	6.09	6.84	7.41	7.35
Estimated risk-based capital ratio	N/A	9.00	9.98	11.57	12.52	12.43

Note: 1994 data are preliminary.
Financial and Statistical Analysis (03/13/95)

Aggregate condition data for national banks
(Data through fourth quarter of each year)

	1989	1990	1991	1992	1993	1994
Balance Sheet ($ Billions)						
Assets	1,979.56	1,987.47	1,985.26	2,006.78	2,102.03	2,257.66
Loans	1,274.12	1,278.59	1,231.27	1,195.08	1,270.67	1,384.43
Real estate (RE)	466.53	502.12	502.92	498.26	527.05	561.96
Commercial and industrial (C&I)	388.29	385.11	347.97	332.38	343.97	370.06
Consumer (cnsmr)	254.82	241.65	237.24	229.06	250.54	293.44
Noncurrent loans	41.01	51.84	50.40	40.11	26.32	17.87
Noncurrent RE loans	15.88	25.28	26.94	23.08	15.89	10.29
Noncurrent C&I loans	13.71	17.08	15.81	11.08	6.08	3.84
Noncurrent cnsmr loans	3.07	0.24	3.51	3.19	2.88	2.97
Other real estate owned	9.22	14.45	17.67	17.16	10.50	6.04
Securities not in trading account*	294.48	312.94	360.21	403.84	437.11	414.34
Total liabilities	1,865.56	1,867.25	1,858.03	1,861.72	1,937.04	2,084.66
Total deposits	1,505.62	1,558.56	1,573.25	1,551.69	1,577.07	1,629.98
Domestic deposits	1,307.65	1,373.76	1,380.32	1,371.42	1,364.40	1,350.47
Loan loss reserve	32.44	34.23	33.85	33.06	31.56	31.06
Equity capital	113.92	120.23	127.22	145.06	164.99	173.00
Total capital	N/A	147.11	153.54	173.47	195.18	209.27
Balance Sheet Changes ($ Billions)						
Year-to-Date Changes:						
Assets	129.93	7.91	−2.22	21.53	95.25	155.63
Loans	86.63	4.47	−47.32	−36.19	75.59	113.76
Noncurrent loans	4.93	10.82	−1.44	−10.29	−13.79	−8.45
Other real estate owned	2.48	5.23	3.22	−0.52	−6.66	−4.46
Securities not in trading account*	19.15	18.46	47.27	43.63	33.27	−22.77
Total liabilities	124.38	1.68	−9.22	3.69	75.32	147.62
Total deposits	87.72	52.94	14.69	−21.55	25.38	52.91
Loan loss reserve	2.55	1.78	−0.37	−0.79	−1.50	−0.50
Equity capital	5.55	6.30	6.99	17.84	19.93	8.01
Total capital	N/A	N/A	6.43	19.92	21.71	14.09
Fourth Quarter Changes:						
Assets	56.18	4.65	−10.26	27.28	41.57	54.10
Loans	24.57	−2.11	−7.05	−4.00	33.34	50.06
Noncurrent loans	−0.01	4.49	−1.96	−4.67	−5.31	−1.68
Other real estate owned	1.23	1.81	0.57	−1.52	−2.55	−1.54
Securities not in trading accont*	2.91	−2.12	16.00	8.86	6.52	−14.52
Total liabilities	56.68	4.59	−11.68	23.46	37.38	53.12
Total deposits	58.96	29.97	11.62	27.95	29.71	55.49
Loan loss reserve	1.70	2.19	0.92	−0.64	−0.99	−0.22
Equity capital	−0.51	0.14	1.41	3.83	4.19	0.97
Total capital	N/A	4.45	3.44	5.58	3.50	3.56

*Beginning in 1994, securities classified by banks as "held-to-maturity" are valued at their amortized cost, and securities classified as "available-for-sale" are valued at their current fair value.
Note: 1994 data are preliminary.
Financial and Statistical Analysis (03/13/95)

Aggregate performance data for national banks by size
(Data through fourth quarter of each year)

	Under $100M		*$100M-$1B*		*$1B-$10B*		*Over $10B*		*Total*	
	1993	*1994*	*1993*	*1994*	*1993*	*1994*	*1993*	*1994*	*1993*	*1994*
Industry Structure										
Number of banks	1,991	1,784	1,117	1,082	174	170	37	42	3,319	3,078
Number of banks with losses	120	88	35	26	9	7	0	0	164	121
Number of failed/assisted banks	18	2	5	1	0	0	0	0	23	3
Income Statement ($ Billions)										
Year-to-Date:										
Net income	1.08	0.98	3.55	3.55	8.55	8.11	12.53	14.19	25.70	26.84
Net interest income	3.99	3.67	12.26	11.94	25.29	24.46	38.71	44.04	80.26	84.12
Noninterest income	1.24	1.36	4.07	4.16	15.05	13.54	25.02	26.84	45.38	45.90
Noninterest expense	3.66	3.51	10.64	10.19	25.47	23.66	42.51	46.65	82.28	84.02
Loan loss provision	0.15	0.10	0.86	0.59	2.88	1.88	5.33	2.99	9.22	5.56
Gains on securities sales, net	0.06	–0.02	0.15	–0.13	0.46	–0.27	0.91	0.12	1.58	–0.30
Extraordinary income, net	0.05	0.00	0.14	0.00	0.21	0.00	1.28	–0.04	1.68	–0.04
Net loan loss	0.15	0.11	0.77	0.56	3.14	2.09	6.02	3.27	10.08	6.02
Fourth Quarter:										
Net income	0.24	0.25	0.83	0.89	2.40	2.03	3.13	3.74	6.60	6.90
Net interest income	1.01	0.96	3.11	3.14	6.73	6.55	9.75	11.74	20.59	22.38
Noninterest income	0.38	0.39	1.09	1.15	4.08	3.54	6.50	6.87	12.05	11.95
Noninterest expense	1.03	0.96	2.83	2.74	6.82	6.32	10.82	12.63	21.50	22.65
Loan loss provision	0.04	0.03	0.22	0.17	0.51	0.56	1.25	0.64	2.02	1.39
Gains on securities sales, net	0.01	–0.02	0.03	–0.11	0.04	–0.28	0.08	–0.13	0.15	–0.55
Extraordinary income, net	0.01	0.00	0.02	0.00	0.08	0.00	0.02	0.00	0.13	0.00
Net loan loss	0.05	0.04	0.23	0.18	0.76	0.64	1.71	0.85	2.75	1.71
Performance Ratios (%)										
Year-to-Date:										
Return on equity	11.90	11.87	14.92	15.06	19.26	18.24	16.71	16.14	16.89	16.34
Return on assets	1.14	1.15	1.26	1.32	1.50	1.43	1.18	1.18	1.28	1.26
Net interest margin	4.23	4.31	4.34	4.43	4.43	4.32	3.65	3.65	3.99	3.96
Loss provision to loans	0.31	0.23	0.54	0.37	0.84	0.53	0.81	0.40	0.76	0.43
Net loan loss to loans	0.32	0.24	0.48	0.35	0.91	0.59	0.92	0.44	0.83	0.46
Noncurrent loans to loans	1.45	1.14	1.35	0.96	1.79	1.00	2.45	1.51	2.07	1.29
Loss reserves to loans	1.73	1.56	1.88	1.63	2.61	2.17	2.62	2.45	2.48	2.24
Loss reserves to noncurrent loans	119.72	136.51	139.84	170.66	145.94	216.32	106.85	162.12	119.89	173.78
Loans to assets	50.58	53.62	57.50	60.31	61.06	63.63	61.74	60.98	60.45	61.32
Loans to deposits	57.59	61.66	68.11	72.41	81.95	89.39	86.07	88.01	80.57	84.94
Equity to assets	9.63	9.72	8.65	8.72	7.98	7.78	7.41	7.24	7.85	7.66
Estimated leverage ratio	9.56	10.09	8.50	8.86	7.65	7.71	6.81	6.67	7.41	7.35
Estimated risk-based capital ratio	18.24	18.53	14.89	15.05	12.83	12.28	11.57	11.75	12.52	12.43

Note: 1994 data are preliminary. 0.00 indicates an amount of less than $5 million.
Financial and Statistical Analysis (03/13/95)

Aggregate condition data for national banks by size
(Data through fourth quarter of each year)

	Under $100M		*$100M-$1B*		*$1B-$10B*		*Over $10B*		*Total*	
	1993	*1994*	*1993*	*1994*	*1993*	*1994*	*1993*	*1994*	*1993*	*1994*
Balance Sheet ($ Billions)										
Assets	95.53	86.59	291.09	278.89	608.71	601.05	1,106.70	1,291.12	2,102.03	2,257.66
Loans	48.31	46.42	167.37	168.21	371.67	382.45	683.31	787.35	1,270.67	1,384.43
Real estate (RE)	26.59	25.78	92.55	92.62	153.99	153.16	253.92	290.40	527.05	561.96
Commercial and industrial (C&I)	8.08	7.67	28.65	28.00	81.02	79.01	226.21	255.37	343.97	370.06
Consumer (cnsmr)	8.26	7.71	37.04	38.75	106.90	123.50	98.35	123.48	250.54	293.44
Noncurrent loans	0.70	0.53	2.26	1.61	6.65	3.84	16.72	11.89	26.32	17.87
Noncurrent RE loans	0.37	0.27	1.32	0.92	3.98	2.05	10.22	7.05	15.89	10.29
Noncurrent C&I loans	0.28	0.21	0.68	0.46	1.27	0.68	3.86	2.49	6.08	3.84
Noncurrent cnsmr loans	0.05	0.05	0.22	0.20	1.14	0.98	1.47	1.75	2.88	2.97
Other real estate owned	0.32	0.23	0.89	0.53	1.97	0.83	7.32	4.45	10.50	6.04
Securities not in trading account*	33.85	29.44	88.67	79.12	146.37	127.69	168.22	178.09	437.11	414.34
Total liabilities	86.33	78.18	265.92	254.57	560.14	554.32	1,024.64	1,197.59	1,937.04	2,084.66
Total deposits	83.89	75.29	245.73	232.30	453.54	427.82	793.92	894.57	1,577.07	1,629.98
Domestic deposits	83.88	75.29	245.41	231.71	445.70	413.91	589.41	629.56	1,364.40	1,350.47
Loan loss reserve	0.84	0.72	3.15	2.74	9.70	8.31	17.87	19.28	31.56	31.06
Equity capital	9.20	8.41	25.17	24.32	48.57	46.74	82.05	93.53	164.99	173.00
Total capital	9.65	9.19	26.65	26.58	53.81	53.15	105.06	120.35	195.18	209.27
Balance Sheet Changes ($ Billions)										
Year-to-Date Changes:										
Assets	–6.45	–8.94	–16.99	–12.20	35.13	–7.66	83.56	184.42	95.25	155.63
Loans	–1.98	–1.89	–7.94	0.84	36.30	10.78	49.21	104.04	75.60	113.76
Noncurrent loans	–0.21	–0.17	–0.95	–0.65	–2.04	–2.81	–10.58	–4.83	–13.78	–8.45
Other real estate owned	–0.24	–0.09	–0.75	–0.36	–1.74	–1.14	-3.92	–2.87	–6.66	–4.46
Securities not in trading account*	–1.87	–4.41	0.92	–9.55	11.15	–18.68	23.06	9.87	33.27	–22.77
Total liabilities	–6.20	–8.15	–17.48	–11.35	29.10	–5.83	69.90	172.95	75.32	147.62
Total deposits	–6.56	–8.60	–18.84	–13.43	11.75	–25.72	39.03	100.65	25.38	52.91
Loan loss reserve	–0.11	–0.12	–0.33	–0.41	–0.50	–1.39	-0.56	1.41	–1.50	–0.50
Equity capital	–0.26	–0.79	0.49	–0.85	6.03	–1.83	13.66	11.48	19.93	8.01
Total capital	–0.26	–0.45	0.27	–0.07	7.00	–0.65	14.69	15.29	21.71	14.09
Fourth Quarter Changes:										
Assets	–0.77	–2.72	–8.21	–3.05	20.96	–24.43	29.60	84.30	41.57	54.10
Loans	–0.67	–1.31	–5.92	–0.47	20.46	–11.75	19.47	63.59	33.34	50.06
Noncurrent loans	–0.08	–0.06	–0.48	–0.18	–1.10	–1.13	–3.65	–0.32	–5.31	–1.68
Other real estate owned	–0.06	0.00	–0.21	–0.13	–0.60	–0.28	–1.67	–1.13	–2.55	–1.54
Securities not in trading account*	–0.25	–1.77	–0.06	–4.01	1.70	–16.91	5.13	8.16	6.52	–14.52
Total liabilities	–0.51	–2.39	–7.51	–2.18	19.24	–20.30	26.16	78.00	37.38	53.12
Total deposits	–0.59	–2.40	–5.60	–2.05	10.83	–19.08	25.07	79.02	29.71	55.49
Loan loss reserve	–0.03	–0.06	–0.24	–0.12	–0.46	–0.91	–0.26	0.86	–0.99	–0.22
Equity capital	–0.26	–0.33	–0.70	–0.87	1.72	–4.13	3.44	6.30	4.19	0.97
Total capital	–0.27	–0.24	–0.93	–0.57	1.62	–3.99	3.07	8.36	3.50	3.56

*Beginning in 1994, securities classified by banks as "held-to-maturity" are valued at their amortized cost, and securities classified as "available-for-sale" are valued at their current fair value.
Note: 1994 data are preliminary.
Financial and Statistical Analysis (03/13/95)

Aggregate performance data for national banks by region
(Data through fourth quarter of 1994)

	Northeast	*Southeast*	*Central*	*Midwest*	*Southwest*	*West*	*Total*
Industry Structure							
Number of banks	344	419	646	550	744	375	3,078
Number of banks with losses	14	14	17	12	27	37	121
Number of failed/assisted banks	0	0	0	1	0	2	3
Income Statement ($ Billions)							
Year-to-Date:							
Net income	8.37	4.36	4.21	2.36	2.19	5.35	26.84
Net interest income	26.63	13.59	13.96	6.36	7.50	16.08	84.12
Noninterest income	17.46	5.89	5.51	4.49	3.52	9.03	45.90
Noninterest expense	29.61	12.41	12.28	6.61	7.64	15.49	84.02
Loan loss provision	2.65	0.56	0.73	0.60	0.14	0.89	5.56
Gains on securities sales, net	0.21	–0.06	–0.25	–0.01	–0.11	–0.10	–0.30
Extraordinary income, net	–0.03	0.00	–0.01	0.00	0.00	0.00	–0.04
Net loan loss	2.74	0.57	0.72	0.58	0.14	1.27	6.02
Fourth Quarter:							
Net income	2.09	1.07	1.07	0.57	0.53	1.58	6.90
Net interest income	6.97	3.45	4.11	1.68	1.95	4.22	22.38
Noninterest income	4.55	1.58	1.55	1.12	0.90	2.25	11.95
Noninterest expense	8.04	3.21	3.64	1.75	2.01	3.99	22.65
Loan loss provision	0.74	0.17	0.24	0.16	0.03	0.06	1.39
Gains on securities sales, net	–0.08	–0.10	–0.23	–0.01	–0.06	–0.06	–0.55
Extraordinary income, net	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net loan loss	0.68	0.20	0.29	0.17	0.06	0.32	1.71
Performance Ratios (%)							
Year-to-Date							
Return on equity	14.25	15.74	14.86	20.59	13.33	17.61	16.34
Return on assets	1.09	1.13	1.12	1.57	1.04	1.44	1.26
Net interest margin	3.47	3.52	3.73	4.23	3.58	4.35	3.96
Loss provision to loans	0.58	0.23	0.32	0.64	0.12	0.35	0.43
Net loan loss to loans	0.60	0.24	0.31	0.61	0.12	0.50	0.46
Noncurrent loans to loans	1.86	0.84	0.83	0.93	0.82	1.46	1.29
Loss reserves to loans	2.66	1.76	1.83	1.89	1.63	2.72	2.24
Loss reserves to noncurrent loans	143.29	210.74	220.90	202.51	197.37	186.12	173.78
Loans to assets	59.18	61.30	61.45	62.25	54.32	69.25	61.32
Loans to deposits	85.50	85.56	83.65	88.92	67.46	93.75	84.94
Equity to assets	7.66	7.17	7.56	7.63	7.83	8.20	7.66
Estimated leverage ratio	7.17	7.00	7.52	7.91	7.67	7.51	7.35
Estimated risk-based capital ratio	12.65	11.72	12.39	12.93	13.27	12.15	12.43

Note: 1994 data are preliminary. 0.00 indicates an amount of less than $5 million.
Financial and Statistical Analysis (03/13/95)

Aggregate condition data for national banks by region
(Data through fourth quarter of 1994)

	Northeast	*Southeast*	*Central*	*Midwest*	*Southwest*	*West*	*Total*
Balance Sheet ($ Billions)							
Assets	766.69	386.13	374.51	150.48	209.66	370.19	2,257.66
Loans	453.69	236.68	230.15	93.67	113.89	256.34	1,384.43
Real estate (RE)	163.95	115.12	92.98	31.72	48.85	109.34	561.96
Commercial and industrial (C&I)	139.71	56.64	60.51	21.04	32.28	59.89	370.06
Consumer (cnsmr)	86.90	45.43	55.85	29.25	22.16	53.84	293.44
Noncurrent loans	8.42	1.98	1.91	0.87	0.94	3.75	17.87
Noncurrent RE loans	4.63	1.31	0.97	0.33	0.51	2.54	10.29
Noncurrent C&I loans	1.69	0.42	0.54	0.22	0.29	0.68	3.84
Noncurrent cnsmr loans	1.63	0.21	0.35	0.27	0.11	0.39	2.97
Other real estate owned	3.42	0.74	0.40	0.15	0.32	1.00	6.04
Securities not in trading account*	120.53	77.65	73.15	33.28	62.73	46.99	414.34
Total liabilities	707.96	358.44	346.20	138.99	193.25	339.82	2,084.66
Total deposits	530.61	276.62	275.15	105.34	168.82	273.43	1,629.98
Domestic deposits	343.54	257.76	245.10	102.33	164.67	237.07	1,350.47
Loan loss reserve	12.06	4.17	4.22	1.77	1.85	6.98	31.06
Equity capital	58.73	27.69	28.31	11.49	16.41	30.37	173.00
Total capital	73.89	32.70	34.83	13.93	17.64	36.28	209.27
Balance Sheet Changes ($ Billions)							
Year-to-Date Changes:							
Assets	75.74	20.47	15.43	7.57	7.35	29.08	155.63
Loans	35.85	18.06	13.53	6.77	13.51	26.04	113.76
Noncurrent loans	–3.62	–0.96	–0.98	–0.31	–0.17	–2.42	–8.45
Other real estate owned	–2.73	–0.52	–0.51	–0.10	–0.28	–0.33	–4.46
Securities not in trading account*	–3.64	–9.16	–0.89	-1.24	–3.96	–3.89	–22.77
Total liabilities	68.77	19.95	15.87	7.55	6.98	28.50	147.62
Total deposits	29.25	8.20	6.27	-0.69	3.41	6.46	52.91
Loan loss reserve	0.05	–0.07	–0.16	0.03	0.02	–0.38	–0.50
Equity capital	6.97	0.51	–0.44	0.02	0.38	0.58	8.01
Total capital	7.72	2.38	0.11	1.13	1.20	1.55	14.09
Fourth Quarter Changes:							
Assets	13.37	7.47	7.76	4.83	7.80	12.86	54.10
Loans	14.20	6.00	7.39	2.39	6.49	13.60	50.06
Noncurrent loans	–0.95	–0.18	–0.31	–0.04	–0.04	–0.17	–1.68
Other real estate owned	–1.18	–0.15	–0.08	–0.06	–0.04	–0.03	–1.54
Securities not in trading account*	–4.92	–2.34	–3.08	0.61	–1.28	–3.52	–14.52
Total liabilities	11.68	7.26	7.77	5.45	7.93	13.04	53.12
Total deposits	18.33	9.49	11.99	3.57	6.81	5.31	55.49
Loan loss reserve	0.11	–0.04	–0.02	–0.01	–0.01	–0.26	–0.22
Equity capital	1.69	0.21	0.00	–0.62	–0.13	–0.18	0.97
Total capital	1.73	1.11	0.51	0.00	0.23	–0.01	3.56

*Beginning in 1994, securities classified by banks as "held-to-maturity" are valued at their amortized cost, and securities classified as "available-for-sale" are valued at their current fair value.

Note: 1994 data are preliminary. 0.00 indicates an amount of less than $5 million.

Financial and Statistical Analysis (03/13/95)

Glossary

Definitions

Commercial Real Estate Loans: Loans secured by nonfarm, nonresidential properties.

Construction Loans: Loans for construction and land development.

Extraordinary Income, Net: Net after-tax income from events and transactions that are "unusual and infrequent."

Failed/Assisted Banks: National banks that have been closed by, or have received financial assistance from, the Federal Deposit Insurance Corporation (FDIC).

Gains on Securities Sales Net: Net pre-tax realized gains (losses) on securities not held in trading account.

Leverage Ratio: Ratio of estimated Tier 1 capital to estimated tangible total assets.

Loans: Total loans and leases less unearned income.

Net Loan Losses: Total loans and leases charged off (removed from balance sheet because of uncollectibility) during the period, less amounts recovered on loans and leases previously charged off.

Loan Loss Reserve: The allowance for loan and lease losses.

National Banks: Nationally chartered commercial banks, trust companies without deposits, nonbank banks, and credit card banks in the United States and its territories that are insured by either the Bank Insurance Fund or the Savings Association Insurance Fund of the FDIC and filed a call report.

Noncurrent Loans: The sum of loans and leases 90 days or more past due plus nonaccrual loans.

Net Interest Margin: Net interest income as a percent of average assets.

Other Real Estate Owned (OREO): Real estate acquired by a bank for debts previously contracted (i.e., foreclosed real estate). Also includes property formerly used or intended for use for banking purposes.

Regions: Northeastern (NE) — Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virgin Islands; Southeastern (SE) — Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia; Central (CE) — Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin; Midwestern (MW) — Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota; Southwestern (SW) — Arkansas, Louisiana, New Mexico, Oklahoma, Texas; Western (WE) — Alaska, Arizona, California, Colorado, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming. Each bank in a multinational bank holding company is included in the region in which the bank is located.

Residential Real Estate: Loans secured by one- to four-family and multifamily (five or more) residential properties.

Risk-based Capital Ratio: Ratio of estimated total capital to estimated risk-weighted assets.

Securities Not in Trading Account: Total securities excluding those held in trading accounts. Beginning in 1994, securities classified by banks as "held-to-maturity" are valued at their amortized cost, and securities classified as "available-for-sale" are valued at their current fair value.

Total Capital: The sum of Tier 1 and Tier 2 capital reported on call report schedule RC-R.

Computation Methodology

Current quarter income statement items were calculated by summing the difference between the year-to-date and previous quarter numbers of each item for all banks that filed a current quarter call report. For performance ratios constructed by dividing an income statement (flow) item by a balance sheet (stock) item, the income statement item for the period was annualized (multiplied by the number of periods in a year) and the average of the balance sheet item for the period (beginning-of-period amount plus end-of-period amount divided by two) was used.

New Evidence on Banking and the Macroeconomy: Making Better-Informed Policy Choices

by William W. Lang
Economics and Evaluation

Commercial banks have historically had two central functions. The first function is to collect deposits. These deposits in turn form the bulk of the economy's money supply. Given the connection between banks and the money supply, it has long been recognized that the efficiency and stability of banks plays a crucial role in the macroeconomy.

The second main function of banks is their role as lenders. Does the manner in which banks allocate credit also have a significant impact on the macroeconomy? Perhaps surprisingly, modern economists in the main have answered this question in the negative. For the most part, post-1960 macroeconomic research has concentrated on the role of money, and not on the role of banks as allocators of credit.

Recently, a number of economists have been resurrecting the view that commercial banking's role in allocating credit has a significant impact on the macroeconomy. In a series of recent scholarly papers, these economists argue that the quantity of credit that flows to information-problematic firms (i.e., firms for which collecting information and monitoring behavior are costly) is an important factor affecting the business cycle, productivity, and economic growth. According to this "new credit view," the costs associated with financial intermediation, often referred to as "agency costs," can have a substantial impact on the macroeconomy. In particular, these costs may lengthen and deepen recessions, and may retard long-run economic growth.

This article summarizes the most important theoretical and empirical findings of the new credit view, and highlights the potential importance of these findings for banking policy. By more clearly understanding this research, regulators might be able to design more effective policies on small business lending and lending in underserved communities, as well as policies designed to improve the efficiency of the banking system in general. In particular, the fundamental findings of the new credit view can provide economic justification for policies aimed at reducing the regulatory costs of lending to small businesses, encouraging the development of loan consortia for lending to small businesses and to distressed communities, and allowing banks to hold equity in community development projects and small business.

Microeconomic Theory

The *principal-agent* framework is the theoretical approach most widely associated with the credit view. This framework starts with the observation that a problem of *asymmetric information* exists in most lending situations. The asymmetric information problem arises when borrowers know more about the characteristics of their activities than do lenders.

Because of the asymmetric information problem, lenders must incur expenses to screen and monitor borrowers. These "agency" costs are not the same for all firms. Firms with low net worth and uncertain (from the lender's perspective) future earnings have high information costs. In this article, such firms will be referred to as "risky" firms. (Note that the term risky in this context refers to the lender's subjective beliefs about the borrower, given the lender's information, and does not necessarily refer to the firm's actual prospects or the type of investment projects being financed.)

There is a high, though not one-to-one, correlation between "risky" firms and firm size. Smaller firms tend to be newer on average, have lower net worth, and have little publicly available information about their financial condition. This has led many researchers to use firm size as a proxy, albeit an imperfect one, for riskiness in lending.

High agency costs drive a wedge between the cost of funds to risky firms and the cost of funds to safe firms. This wedge is a "credit market imperfection," because credit is not necessarily being allocated to firms with the most productive investment projects, but rather to firms for which the bank has better information. Lowering agency costs can increase the overall level of credit in the economy by lowering the average cost of funds. In addition, lower agency costs increase the efficiency of the allocation of capital across borrowers. A major contribution of recent research has been to highlight the importance of these efficiency gains to the macroeconomy.

Mitigating the Information Problem

Banks and other financial intermediaries exist, in part, as a response to imperfections in the credit market. Financial intermediaries are able to pool the resources of many savers, which provides certain advantages over direct financing. For example, pooling allows small savers to indirectly hold diversified portfolios. In addition, and most importantly for the credit view, intermediation allows banks to develop specialized expertise in evaluating, contracting, and monitoring loans. This specialization lowers the costs associated with information-problematic loans and thereby leads to more credit being extended to certain borrowers.

Because of their role as depository institutions, banks have been and continue to be the dominant financial intermediary in the market for business loans. Most small and medium-sized firms establish relationships with local commercial banks, and those banks are often the primary source of credit for those firms (see Elliehausen and Wolken 1990). Small firms typically concentrate their borrowing among a few banks, and small firms that establish a longer-term relationship with a bank increase their access to credit (see Petersen and Rajan 1994).

Credit Market Imperfections and Macroeconomics: The Theory[1]

Credit market imperfections are exacerbated by financial distress, economic downturns, and low overall economic activity. Agency costs become a larger factor in the allocation of credit during periods of financial distress or in underdeveloped regions. The costs of funds to relatively risky firms are more sensitive to negative economic news. As a result, the cost wedge between relatively risky and relatively safe firms increases. This increase in agency costs in turn implies even greater misallocations of credit, and as a result even slower productivity growth and output growth. Credit market imperfections can therefore become a causal factor for continued poor economic performance. Temporary adverse macroeconomic events (e.g., a tightening of monetary policy) can be exacerbated and prolonged by these financial factors.

Why are loan rates more sensitive to risk factors at relatively risky firms? One reason is the impact that a fall in asset values can have on low net worth firms. An example: Suppose a firm has $10 million in assets and $9 million in debt. Another firm has $10 million in assets and $1 million in debt. A 10 percent decline in asset values drives the first firm to a zero net worth position and greatly increases the incentives for risk-taking by the firm. Although the second firm would experience an equivalent dollar reduction in net worth, its incentives for risk-taking would not change substantially.

Hence, declining asset values can cause larger incentive problems for firms with initially low net worth. As a result, a shock to the macroeconomy that lowers asset values will cause banks to (inefficiently) contract the amount of capital flowing to low net worth borrowers. This lowers economic activity, which can lead to further falls in asset values.

It is plausible that declining net worth at one firm can cause an economic externality at another firm. A fall in the net worth of some subset of financially constrained firms could cause those firms to default on contracts and/or sell off assets at bargain prices. This will in turn impact the credit-worthiness of other firms — firms that now hold worthless contracts or have to sell assets in a down market. These deleterious effects on other firms are not taken into account by the competitive marketplace.[2]

If the government sets out to counteract these externalities by help individual firms in financial distress, it is likely that such policies would do more harm than good. Forbearance and easing credit to cash-constrained firms would tend to erode market discipline and possibly cause even more financial crises. A more fruitful approach is to design policies that support business activity in general without targeting individual firms. Expansionary monetary policy is such a tool on an economywide level. On a regional level, government has a wide variety of tools for encouraging general economic activity in a particular locality.

Another reason that risky loans are more sensitive to negative economic shocks is the existence of "dynamic information externalities." An information externality exists in a credit market when one lender makes loans based on the information generated by the lending activities of other lenders. A parallel can be found in the economics of research and development. It is well known that competitive markets provide insufficient incentives for invention and innovation. This market failure occurs because firms must suffer the costs of a large number of "losers" in order to find a few high-return "winners," after which competitors may appropri-

[1] This section is based primarily on three papers — Bernanke and Gertler (1989), Lang and Nakamura (1990), and Kiyotaki and Moore

[2] This is the type of "debt deflation" scenario Irving Fisher discussed in his analysis of the Great Depression. Fisher believed that there was an unexpected deflation that raised the real value of fixed nominal interest rate debts. He argued that this increased bankruptcies, which further depressed prices and led to a downward spiral.

ate the new innovation for their own. Patent laws, which ensure that firms can reap sufficient long-term gains when they hit upon a winner, were developed to provide an incentive for firms to do research and development. Lending to risky businesses (particularly newer businesses, businesses investing in new products, or businesses in an economically depressed region) has some of the same characteristics as research and development. Lenders often need to take some short-term risks in order to find the kinds of enterprises that will have payoffs. The initial investment may not be worth the risk if a lender cannot keep other lenders from free riding on the knowledge generated by the initial investment.

A number of credit markets can exhibit informational externalities. Here is a mortgage market example: A key informational need in a residential mortgage loan is an accurate measure of the value of the house that serves as collateral. If a housing market becomes inactive, it is difficult for lenders to accurately appraise the value of the house and to have confidence in the underlying collateral.[3] Thus a low level of mortgage activity may be self-perpetuating. A mortgage loan in a neighborhood is perceived to be risky because there is little mortgage market experience in the neighborhood.

The existence of market failure due to informational externalities provides an economic rationale for regulatory interventions that subsidize economic activity in depressed and underserved areas. The Community Reinvestment Act (CRA) and enterprise zones are two examples of these types of policies. Similar arguments can be made for policies that encourage banks to lend in cyclically depressed regions. In addition, lending consortia, by reducing the individual investment by each participant, might temper the effects of free-riding behavior by lenders and increase credit in economically underdeveloped or inactive regions.

Credit Market Imperfections and Macroeconomics: The Evidence

Three types of empirical studies have found evidence in support of new credit view theories — studies of financial constraints at small enterprises, studies of the business cycle and how it impacts firms of different sizes, and studies of the financial infrastructure in lesser developed countries.

Investment Spending, Entrepreneurship, and Financial Constraints. In traditional economic theory of investment, a firm decides to invest in a project if the return to the project is greater than cost of funds to the firm. The costs of funds to the firm is either the interest costs on borrowed funds (external financing) or the implicit cost of using retained earnings (internal financing) to fund the project.[4] If there were no agency costs, then the implicit costs of internal funds would be identical to the explicit costs of external financing.

However, if agency costs exist because of incomplete and costly information about the borrower, then external financing will be more costly than internal financing. The new credit view therefore predicts that investment decisions by a firm will depend on whether or not a firm is dependent on external financing. In addition, the relationship between source of funds and investment will be stronger for firms that face high agency costs.

There is now a large body of evidence showing that investment decisions are indeed affected by whether or not a firm is dependent on external financing. In a paper that was the model for many subsequent studies, Fazzari, Hubbard and Petersen (1988) classified firms as being dependent or not dependent on external financing based on the firms' dividend policies. They show that investment spending is quite sensitive to cash flow for the firms that are most likely to be credit constrained (i.e., firms with no dividend payout), whereas investment spending at unconstrained firms was not very sensitive to cash flow. These results have now been replicated in many studies which have used a wide variety of criteria (other than dividend policy) to classify firms. The results have also been replicated in studies on foreign data — in Canada, the United Kingdom, and Japan. Other studies have shown differential effects on employment (see Sharpe 1993) and research and development spending (see Himmelberg and Petersen 1992).

An interesting finding has appeared in some recent studies of this type: the link between firm size and external financial constraints disappears when financial indicators (such as whether the firm has a bond rating) are taken into consideration (see Gilchrist 1990 and Whited 1992). This suggests that agency costs, and not technological factors that might may be related to size, explain the observed differences in investment behavior of smaller and larger firms.

Holtz-Eakin, Joulfaian, and Rosen (1994) show that survival rates and growth rates of sole proprietorships are significantly affected by the size of inheritances. They looked at a sample of individuals who were sole

[3] This idea is formalized in Lang and Nakamura (1993b). Alan Greenspan cited the difficulty of accurate appraisals as a factor in the prolonged stagnation of the Texas and California real estate markets after the 1990 recession.

[4] The firm might also issue new equity. Discussion of this additional source of external funding is omitted for the sake of brevity.

proprietors in 1981 and received some inheritance in 1982 or 1983. They examined how the size of the inheritance impacted the proprietors' status in 1985, and found that a $150,000 inheritance increased the probability of remaining an entrepreneur by 1.3 percent. More significantly, they found that such an inheritance would increase receipts by nearly 20 percent. These figures likely underestimate the true impact of financial constraints, because the selected sample (entrepreneurs who received inheritances) has substantially higher assets and incomes relative to the general population of entrepreneurs and thus faces fewer financial constraints.

In summary, there is now a rather large body of research the results of which are consistent with the microeconomic theory underlying the new credit view. This research demonstrates that firm investment decisions are affected by the level of agency costs and that these agency costs differ substantially across firms.

The Flight to Quality and the Business Cycle. The new credit view implies that adverse shocks to the macroeconomy (such as a rise in interest rates) will cause banks to disproportionately reduce the amount of credit flowing to small, riskier borrowers. This is often referred to as a "flight to quality." As a result, there will be a disproportionate reduction in both employment and investment at these firms early on in an economic downturn. Moreover, the fall in employment and investment in small firms will then spill over into the rest of the economy. There is now a considerable body of evidence supporting this view. Below is a brief summary of that evidence.

Lang and Nakamura (1993a) examined bank lending patterns using detailed individual loan data from the Federal Reserve's *Survey of Terms of Bank Lending* over the period from 1979 to 1992. Their theoretical model demonstrates that an event that raises the probability of borrower default (for example, a rise in average interest rates) has a larger impact on the profitability of relatively risky borrowers. In response, banks shift their loan portfolios toward the higher quality end of the loan market. Because the relatively risky borrowers are often dependent on banks for their credit needs, they will therefore be forced to cut back on their production activities more drastically than higher quality firms.

Lang and Nakamura tested their model by classifying all floating rate loans in the *Survey of Bank Lending* as either safe loans or risky loans. These loan classifications were made based on the loan interest rates relative to some benchmark rate, such as the prime rate, LIBOR, or 3-month T-bill rates. (As would be expected, the safe loan category contained much larger loans on average than does the risky loan category.) The proportion of bank loans going to safe borrowers (%SAFE) began rising immediately before each recession during the sample period. In a multivariate time series regression, %SAFE had strong predictive power for future movements in real GDP and aggregate investment activity. Furthermore, %SAFE accounted for a larger proportion of the future variance of real GDP than did M1 and M2, the traditional measures of money and credit. These results imply that shifts in the "quality" mix of bank portfolios has a substantial impact on macroeconomic performance.

Two studies based on the Treasury Department's *Quarterly Financial Report* show that the pattern of borrowing by small manufacturing firms is radically different from the pattern of borrowing by large manufacturing firms between 1958 and 1991. Oliner and Rudebusch (1994) find a contraction in all forms of borrowing by small manufacturing firms in response to a tightening of the money supply. On the other hand, larger firms *actually borrow more* during these time periods. This implies that when sales slow, large firms that are not credit constrained are able to borrow to finance their payroll and inventory needs, while smaller firms that are likely to be credit constrained must cut back on employment and production immediately and more severely.

Gertler and Gilchrist (1994) produce similar results, and also demonstrate that small firms reduce their inventories quickly when their sales begin to fall. In contrast, larger firms borrow more in the short run in order to finance their rising inventories. This result may explain an important puzzle in macroeconomic theory — why don't firms respond to temporary flucuations in sales by keeping production smooth but letting their inventories fluctuate? Gertler and Gilchrist argue that it is the inability of small firms to finance inventory accumulation during downturns that forces them to cut back on production.

Two other studies use different loan classification schemes to study the relationship between the business cycle and differential borrowing across business firms. Kashyap, Lamont, and Stein (1994) classify firms without bond ratings as being "bank dependent" firms. Bank dependent firms tended to be smaller than firms with bond ratings, with median assets of $50 million compared to $1.5 billion for firms with bond ratings. The authors demonstrate that bank dependent firms reduced inventories substantially more than did firms with bond ratings during the monetary tightening in 1981-82.

Morgan (1993) using the Federal Reserve Board's *Loan Commitment Survey* (1975-87) develops a data series of "loans not under commitment." Morgan's data cannot

break down loans by size of loan or by size of borrower, but generally larger firms are more likely to have commitment lines. Morgan argues that loans under commitment will bear the brunt of any adjustments due to credit constraints. Morgan finds that his series performs as well or better than M1, M2, and the Fed Funds Rate in forecasting movements in real GDP.

Financial Intermediation and Economic Growth and Development. Recent empirical studies of the relationship between financial intermediation and economic development have looked at data from either a cross-section of countries (including developing countries) or a cross-section of firms within a country. Since the financial systems in many of the countries studied are much less developed than in the U.S., the findings of these studies may not have direct relevance to current issues in U.S. financial markets. Nevertheless, it is useful to understand the independent role of financial factors in economic development, and it is possible that lessons drawn from these studies will be useful for well-developed financial systems.

These studies find that financial development is an important independent factor in subsequent economic growth. In addition, the studies find that financial liberalization is associated with more efficient uses of credit.

Robert King and Ross Levine (1993a, 1993b) examine the relationship between the rate of growth of capital, the rate of improvements in economic efficiency, and indicators of financial development. Using standard regression analysis, the authors find that measures of financial development are correlated strongly and robustly with real economic growth rates. More importantly, they find that indicators of financial development are good predictors of future capital growth and future improvements in economic efficiency. King and Levine also find that the relative size of the private banking sector (and not just the overall level of financial services) is a significant indicator of future growth and improved efficiency. They conclude that economic policies that alter the costliness and efficiency of financial intermediation have a direct and significant influence on economic growth.

A recent World Bank research project analyzed whether more efficient firms receive a larger fraction of credit in the wake of financial reforms in Ecuador and Indonesia (see Jaramillo, Schiantarelli, and Weiss 1992; Harris, Schiantarelli and Siregar 1993; and Siregar 1992). These studies estimated a production function from firm level data, then computed the gap between each firm's actual production and the production possibilities frontier defined by the most efficient firms. As a group, the studies confirm that financial intermediaries add value in large part because they improve the efficiency of capital allocation, and not simply because they increase the total supply of credit.

Policy Implications of the New Credit View

The new credit view — as embodied in the theoretical and empirical evidence in the previous sections — provides a clearer basis for evaluating the potential benefits of various policy initiatives. Policies designed to increase lending to small businesses, policies designed to increase lending in distressed communities, and policies designed to improve the efficiency and stability of the banking system can all be better scrutinized in light of the new credit view.

- The new credit view argues that potentially large gains in macroeconomic performance can be achieved by reducing regulatory burdens associated with loans to small business. Such policies can be most effective by attempting to reduce the cost wedge associated with small business lending, and thereby improve the allocation of credit across different sized firms. The banking and thrift regulatory agencies have recently implemented policies with this goal in mind. These initiatives include the low documentation program for small business lending and the imposition of less stringent real estate appraisal standards for small business loans.

- The new credit view helps explain why most firms establish relationships with a local lender, and why small local lenders are the primary source of credit for small businesses. Loan officers and management in smaller banks may be better equipped from an institutional point of view to utilize the local and firm specific information which is vital to reducing the costs of making small business loans. Thus, the OCC's adoption of new examination procedures for smaller noncomplex banks has potentially large payoffs, as long as regulatory burdens on these institutions can be reduced without undermining safety and soundness.

- The new credit view has implications for the design of policies aimed at increasing lending in distressed communities. It is important to note that the new credit view does not argue that regulators and government bureaucrats are better than the private sector at spotting profitable lending activities or in allocating credit to particular individuals or firms. There are several possible ways that the public sector can encourage lending in distressed areas that do not excessively infringe on the workings

of the competitive marketplace. For example, regulators can encourage the development of loan consortia designed to make loans in depressed areas or to make loans to small businesses. Loan consortia decrease the initial costs that any individual lender need incur in order to determine whether lending into a given market will be profitable. Being part of a loan consortium also reduces an individual lender's exposure to risk if a minimum level of investment in a depressed community is necessary to foster development.

Loan consortia are becoming more numerous. There is a growing body of evidence that these consortia have been effective in generating increased credit flows to depressed communities, and it is likely that growth of loan consortia will continue. Government agencies can encourage this development by alleviating concerns that banks have over potential anti-trust liability. In addition, government agencies can help disseminate the knowledge and experience developed by existing loan consortia.

Banking regulators might also consider allowing banks to hold larger equity positions in small business firms and in community development investments. Equity has certain advantages over debt for institutions that are financing the activities of information-problematic firms. In particular, if banks perceive themselves as taking larger risks on individual projects, an equity position allows them to reap larger long-term rewards for financing the firms that ultimately prove to be successful. Current regulations might be reviewed to see whether limits on equity holdings can be relaxed without compromising the fundamental safety and soundness of the bank.

Finally, banking regulators should pay careful attention to the impact of interstate banking legislation on the flow of credit to small firms. Relaxation of branching restrictions is certainly a positive development which will generate efficiency gains for the banking system, but not without some potential side effects. For example, there is considerable evidence that small banks can continue to thrive in this new environment precisely because smaller banks have advantages in lending to information-problematic borrowers. However, in a world of complete interstate banking and branching, it is possible that some local markets may find themselves with no small banks. It is difficult to forecast exactly what will occur in such circumstances, but currently small banks provide the bulk of credit services to small business borrowers. Regulators should assess whether particular local credit markets are being adversely affected by the absence of a local community bank and whether such effects warrant regulatory remedies.

Conclusions

The theory and evidence that links business firms' access to bank credit to macroeconomic phenomena has advanced greatly over the last several years. The new credit view — that the manner in which credit markets function plays a central role in the macroeconmy — has gained increasing acceptance both in academic and public policy circles. These findings provide a strong rationale for supporting both private market innovations and regulatory initiatives that lower the costs associated with small business lending and lending in distressed communities. Such policies may not only produce benefits in terms of fairness and equity, but if they are effective, these developments can also have a substantial and beneficial impact on aggregate economic performance.

References

Bernanke, Ben, and Harold James (1991). "The Gold Standard, Deflation and Financial Crisis in the Great Depression: An International Comparison," in R. Glenn Hubbard, ed., *Financial Markets and Financial Crises* (Chicago, 1991), pp. 33-68.

Bernanke, Ben, and Mark Gertler (1989). "Agency Costs, Net Worth, and Business Fluctuations," *American Economic Review*, 79, 14-31.

Elliehausen, Gregory, and John Wolken (1990). "Banking Markets and the Use of Financial Services by Small and Medium-Sized Businesses," Staff Study 160, Federal Reserve Board of Governors.

Fazzari, Steven, R. Glenn Hubbard, and Bruce Petersen (1988). "Financing Constraints and Corporate Investment," *Brookings Papers on Economic Activity*, 1988:1, 141-195.

Gertler, Mark, and Simon Gilchrist (1994). "Monetary Policy, Business Cycles and the Behavior of Small Manufacturing Firms," *Quarterly Journal of Economics*, 309-340.

Gilchrist, Simon (1990). "An Empirical Analysis of Corporate Investment and Financing Hierarchies Using Firm-Level Panel Data," unpublished, Federal Reserve Board of Governors.

Harris, J.R., F. Schiantarelli, and M.G. Siregar (1993). "How Financial Liberalization in Indonesia Affected Firms' Capital Structure and Investment Decisions," World Bank Working Paper 997.

Himmelberg, Charles, and Bruce Petersen (1992). "R&D and Internal Finance: A Panel Study of Small

Firms in High-Tech Industries," unpublished, Washington University.

Holtz-Eakin, Douglas, David Joulfaian, and Harvey Rosen (1994). "Sticking It Out: Entrepreneurial Survival and Liquidity Constraints," *Journal of Political Economy*, 53-75.

Jaramillo, F., F. Schiantarelli, and A. Weiss (1992). "The Effect of Financial Liberalization on the Allocation of Credit: Panel Data Evidence for Ecuador," World Bank Working Paper 1092.

Kashyap, Anil K., Owen Lamont, and Jeremy C. Stein (1994). "Credit Conditions and the Cyclical Behavior of Inventories," *Quarterly Journal of Economics*, 565-592.

King, Robert G., and Ross Levine (1993a). "Finance and Growth: Schumpeter Might Be Right," *Quarterly Journal of Economics*, 717

King, Robert G., and Ross Levine (1993b). "Finance, Entrepreneurship and Growth: Theory and Evidence," *Journal of Monetary Economics*, 513-42.

Kiyotaki, Nobuhiro, and John Moore (1993). "Credit Cycles," mimeo, University of Minnesota.

Lang, William W., and Leonard I. Nakamura (1990). "The Dynamics of Credit Markets in a Model with Learning," *Journal of Monetary Economics*, 26, 305-318.

Lang, William W., and Leonard I. Nakamura (1993a). "'Flight to Quality' in Bank Lending and Economic Activity," Working Paper, Federal Reserve Bank of Philadelphia.

Lang, William W., and Leonard I. Nakamura (1993b). "A Model of Redlining," *Journal of Urban Economics*, 33, 223-34.

Morgan, Donald (1993). "The Lending View of Monetary Policy and Bank Loan Commitments," Working Paper, Federal Reserve Bank of Kansas City.

Oliner, Stephen D., and Glenn D. Rudebusch (1994). "The Transmission of Monetary Policy to Small and Large Firms," Working Paper, Federal Reserve Board of Governors.

Peek, Joe, and Eric S. Rosengren (1994). "The Capital Crunch: Neither a Borrower Nor a Lender Be," *Journal of Money, Credit, and Banking*, forthcoming.

Petersen, Mitchell, and Raghuram G. Rajan (1994). "The Benefits of Firm-Creditor Relationships: A Study of Small Business Financing," mimeo, Graduate School of Business, University of Chicago.

Sharpe, Steven (1993). "Financial Market Imperfections, Firm Leverage, and the Cyclicality of Employment," Working Paper, Federal Reserve Board of Governors.

Siregar, M. (1992). "Financial Liberalization, Investment and Debt Allocation," Ph. D. Dissertation, Boston University.

Whited, Toni (1992). "Debt, Liquidity Constraints and Corporate Investment: Evidence from Panel Data," *Journal of Finance*, 1425-60.

Comptroller's Report of Operations — 1994

Comptroller

The Comptroller's Office examines and supervises approximately 3,100 federally chartered national banks through a nationwide staff of bank examiners and other professional and support personnel. National banks represent about 29 percent of all commercial banks and 56 percent of the total assets of the banking system. The Comptroller's Office also supervises federally licensed branches and agencies of foreign banks.

The Comptroller serves as a member of the board of the Federal Deposit Insurance Corporation (FDIC), a member of the Federal Financial Institutions Examination Council (FFIEC), and a member of the board of the Neighborhood Reinvestment Corporation (NRC).

Advice to the Comptroller is provided by a senior management group consisting of a Senior Policy Advisor, the Chief Counsel, and six Senior Deputy Comptrollers representing Bank Supervision Operations, Bank Supervision Policy, Economic Analysis and Public Affairs, Capital Markets, Corporate Activities and Policy Analysis, and Administration.

The Comptroller's personal staff directs, coordinates, and manages the day-to-day operations of the Office. The staff also oversees projects of special interest to the Comptroller and serves as liaison with OCC staff and the staffs of other regulatory agencies.

Senior Deputy Comptroller for Bank Supervision Policy

The Senior Deputy Comptroller for Bank Supervision Policy formulates and implements policies and procedures applying to national banks and national bank examiners in both the safety and soundness and compliance areas. The senior deputy also oversees OCC supervision and regulation of federal branches and agencies and the analysis of international banking issues. Other responsibilities include the development and operation of automated information systems and training and performance development programs for the agency. The senior deputy comptroller's responsibilities are conducted through the offices of the Chief National Bank Examiner, the Deputy Comptroller for Compliance Management, and the Deputy Comptroller for International Banking and Finance. The Senior Deputy Comptroller for Bank Supervision Policy also coordinates OCC participation in FFIEC activities and task forces and represents the OCC on the Basle Committee on Banking Supervision.

Senior Deputy Comptroller for Bank Supervision Operations

The Senior Deputy Comptroller for Bank Supervision Operations oversees the six district offices, the Multinational Banking Department, and the Special Supervision Division. The senior deputy formulates and implements a broad range of policies relating to OCC's district offices and the multinational banking program. Specific responsibilities include directing programs for the examination and regulation of national banks to promote the continuing existence of a solvent and competitive national banking system. The Senior Deputy Comptroller for Bank Supervision Operations is also responsible for directing the examination, supervision, and analysis of multinational and regional banks, including their international banking activities.

Senior Deputy Comptroller for Economic Analysis and Public Affairs

The Senior Deputy Comptroller for Economic Analysis and Public Affairs advises the Comptroller on external relations with the media, the banking industry, Congress, consumer and community development groups, other governmental agencies, and the public. The senior deputy also oversees the agency's economic research and analysis program and provides policy advice on issues relating to community development. The following divisions and departments report to the Senior Deputy Comptroller for Economic Analysis and Public Affairs: Banking Relations, Communications, Community Development, Congressional Relations, Economic and Policy Analysis, and Public Affairs.

Senior Deputy Comptroller for Corporate Activities and Policy Analysis

The Senior Deputy Comptroller for Corporate Activities and Policy Analysis advises the Comptroller on policy

matters and oversees the OCC's corporate activities area. The senior deputy has the Comptroller's delegated authority for deciding all corporate applications, including charters, mergers and acquisitions, conversions, and operating subsidiaries of national banks, and responsibility for establishing corporate policies. These responsibilities are carried out through Bank Organization and Structure and the corporate areas in each of the OCC's six districts and in Multinational Banking.

Chief Counsel

The Chief Counsel advises the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. The Chief Counsel directs the legal functions in and for the OCC. Such functions include writing and interpreting legislation; responding to requests for interpretations of statutes, regulations, and rulings; defending the Comptroller's actions challenged in administrative and judicial proceedings; supporting the bank supervisory efforts of the office; and representing the OCC in all legal matters. These duties are carried out through two deputy chief counsels. One deputy oversees Bank Activities and Structure, Enforcement and Compliance, Litigation, Securities and Corporate Practices, and the six district counsels; the other has responsibility for Administrative and Internal Law, Community and Consumer Law, the Counselor for International Activities, and Legislative and Regulatory Analysis.

Senior Deputy Comptroller for Administration

The Senior Deputy Comptroller for Administration is responsible for the efficient and effective administrative functioning of the OCC. During 1994, the senior deputy was the focal point for the implementation of recommendations made by the National Performance Review. Through the Deputy Comptroller for Resource Management, the Senior Deputy Comptroller for Administration supervises the Human Resources and Administrative Services Divisions. Through the Chief Financial Officer, the senior deputy supervises Financial Services. The Management Improvement and Quality Improvement Divisions are supervised directly by the senior deputy. Washington office units provide staff assistance and guidance to district administrative functions.

Senior Deputy Comptroller for Capital Markets

The Senior Deputy Comptroller for Capital Markets oversees the formulation and implementation of supervisory policies relating to the risks associated with banks' financial derivatives and emerging markets activities. In addition, the Senior Deputy Comptroller for Capital Markets draws upon staff from throughout the OCC to coordinate specific supervisory projects relating to banks' noncredit financial risks, including interest rate risk. The Senior Deputy Comptroller for Capital Markets also represents the OCC on the President's Working Group on Financial Markets and chairs the Interagency Task Force on Banks' Derivatives-Related Activities.

The Senior Deputy Comptroller for Capital Markets has also been designated by the Comptroller to administer the OCC's Equal Employment and Diversity programs.

Senior Policy Advisor to the Comptroller

The Senior Policy Advisor to the Comptroller oversees a variety of supervisory projects, drawing upon staff and expertise from throughout the agency. During 1994, the senior policy advisor headed the OCC's efforts to negotiate and issue the *Interagency Statement on Retail Sales of Non-Deposit Investment Products,* which provided a uniform framework for the sale of mutual funds and other investments by insured financial institutions. Other responsibilities included overseeing the OCC's response to Mellon Bank's proposal to acquire most of the assets, operations, and activities of the Dreyfus Corporation; directing a review of about 8,500 mutual fund or annuity advertising disclosure documents submitted by more than 700 banks; and preparing materials for Congressional hearings on mutual fund sales by national banks.

Chief National Bank Examiner

The Chief National Bank Examiner's Office is the focal point for OCC policy governing the safety and soundness of the national banking system. It initiates policy changes related to emerging issues affecting bank examinations and chairs the Supervision Policy Committee, a forum through which these policies are developed.

In 1994, the responsibilities of the department increased significantly with the assimilation of the Information Resources Management Department (IRM) and the Training and Performance Development Division into the Chief's Office. The Chief's Office is organized into five divisions: Credit and Management Policy, Examination Process, Chief Accountant, Capital Markets, and Training and Performance Development. Each division is headed by an assistant chief national bank examiner or the chief accountant.

- The Credit and Management Policy Division provides policy direction and support for field examiners on national bank lending activities, including the allowance for loan and lease losses, real estate appraisals, lending limit rules and various other assets such as bank-owned insurance, bank premises, and management processes.

- The Examination Processes Division establishes agency examination policies and report of examination standards; provides policy direction for bank information systems; coordinates OCC supervision policy issuances and publications; and administers the Uniform Commission Examination.

- The Chief Accountant's Office coordinates accounting and reporting issues; interprets regulatory accounting and generally accepted accounting principles related to bank examinations; identifies emerging accounting issues; and develops new accounting principles. The group also administers the financial information requirements of the Securities Exchange Act of 1934 applicable to national banks under 12 CFR 11 and 16, including registration statements, offering circulars, and merger proxy statements.

- The Capital Markets Division provides support for policy direction on a range of issues, including interest rate risk management, bank sales of nondeposit investment products, risk-based capital, derivative products, bank securities portfolio activities, and bank securities dealer activities.

- The Training and Performance Development Division is responsible for all agency course development and also provides customized services throughout the agency regarding organizational and management development.

The IRM Department is headed by a deputy comptroller who reports directly to the chief national bank examiner.

The Chief's Office coordinates OCC participation in the Federal Financial Institutions Examination Council (FFIEC), including support of the Comptroller as a member of the FFIEC and the Senior Deputy Comptroller for Bank Supervision Policy as the chair of the FFIEC Task Force on Supervision. The Chief's Office also participates in other FFIEC task forces including the Appraisal Subcommittee, and provides staff to develop the technical content and serve as instructors for FFIEC training seminars.

The Chief's Office coordinates OCC supervision policy issuances and publications. This includes updates to the *Comptroller's Handbook*, supervision policy issuances, and the Bank Accounting Advisory Series, which presents staff views on accounting topics. In 1994, the Chief's Office began a major revision of the *Comptroller's Handbook* that will better organize our policies and procedures and consolidate all policies and reference materials in one place. The office maintains all supervisory issuances and publications on CD-ROM, which is available to the public on a subscription basis through a vendor.

In 1994, the Chief's Office issued an Interagency Policy Statement, policy guidance and a handbook section on *nondeposit investment products*. The office sponsored a centralized review of 8,500 nondeposit investment sales disclosure documents submitted by 700 banks. The review resulted in improved communication between banks and the OCC concerning what comprises effective disclosure in a bank's sale of nondeposit investment products. Also in 1994, several rule changes affecting capital markets issues were completed, including rules to implement FDICIA Section 305 — Concentrations of Credit and Nontraditional

Products and final rules addressing Bilateral Netting and Collateralized Transactions.

Over the past year, the OCC worked to reduce regulatory burden on the national banking industry. The Chief's Office has been instrumental in this effort, working on regulatory and rule revisions that simplify and eliminate unnecessary requirements. In 1994, the office implemented the Community Bank Procedures for Noncomplex Banks. These are minimum procedures directed toward smaller, simpler banks that were developed to improve the consistency and efficiency of examinations and reduce regulatory burden on banks. The Chief's Office also revised and automated the national line sheet used by examiners and completed a study on the paperwork burdens imposed on banks. The Chief's Office continued to implement the Credit Availability Program by completing the Real Estate Appraisal Regulation and the Interagency Apraisal and Evaluation Guidelines.

During the past year, the Chief Accountant's Office monitored and commented on accounting proposals and pronouncements developed by the Financial Accounting Standards Board and other accounting standard setting bodies. These efforts contributed to more reasoned accounting standards for the banking industry. The regulatory capital and accounting policies with respect to the accounting for impaired loans (FAS 114), debt securities (FAS 115), and deferred income tax assets (FAS 109) were implemented in 1994. Staff members also worked with other financial entities such as the American Bankers Association and the American Institute of Certified Public Accountants, serving as speakers or participants on panels at banking and accounting conferences.

The Chief's Office in 1994 implemented the Bank Information Systems (BIS) program which established the agency's BIS program policy and training requirements and issued guidance on payment systems risk, MIS, and information systems service.

Training

The Chief's Office delivered a significant volume of programs and courses to examiners and other staff during 1994. Almost 200 course sessions at the national level were conducted and staff processed over 1,000 requests for training offered by external vendors. The Training and Performance Development Division reduced the cost of training through the development of self-study and computer-based classes, which saw a significant increase in use over the past year. Eleven new courses were brought on-line and seven classes were completely revised and updated. The quality of instruction was improved through the implementation of course instructor cadres. The division also provided customized services throughout the agency regarding organizational and management development. Such services include facilitation of management transitions and promotion of teamwork.

Additionally, the Chief's Office provides specialty training support by developing advanced courses for identified OCC experts in fields such as capital markets, credit, and bank information systems. This support includes administering the Capital Markets Training Program for 150 examiners. In 1994, the division sponsored five training seminars which addressed the following topics: mortgage banking, quantitative analysis and risk management systems, nondeposit investment products, interest rate and market risk, derivative products, asset-backed commercial paper, mortgage-backed securities, collateralized mortgage obligations, and bank dealer activities. Additionally, four uniform commission examinations were conducted in 1994 to identify examiners for commissioning as national bank examiners.

Information Resources Management

As the senior information official at the OCC, the Deputy Comptroller for Information Resources Management (IRM) is responsible for the development and operation of automated information systems. The deputy comptroller represents the OCC on IRM issues at the Treasury Department and encourages closer technical cooperation with the other federal financial regulators. The deputy comptroller also chairs the IRM Advisory Committee (IRMAC), which develops policies and priorities to guide information systems development and use at the OCC.

Three IRM divisions report to the deputy comptroller: Information Systems Coordination, Applications Development, and Systems Support. These divisions provide technical support to all OCC staff and management and develop and operate automated bank supervision and administrative information systems.

Information Systems Coordination

Information Systems Coordination (ISC) was expanded in 1994 to include responsibility for corporate data management. The division now has four units: the information center, data administration, quality assurance, and information systems planning. Division staff are responsible for office automation at the headquarters office, information systems planning, corporate data management and administrative support for all IRM units. The division supports the deputy comptroller and the IRM Advisory Committee by developing plans, policies, and priorities for information systems development and use. The division also coordinates IRM

initiatives with OCC's district offices, is responsible for meeting Treasury's IRM requirements, and communicates with IRM staff at other financial regulators.

The Information Center (IC) works to ensure that staff at the OCC's Washington headquarters have appropriate office automation equipment and software and that they are able to effectively use it. The IC also provides query access to information from mainframe systems, E-mail, and telephone service. The Quality Assurance branch develops and maintains standards to ensure high quality products and support from IRM. It is also responsible for maintaining security controls over automated information systems. The Information Systems Planning branch integrates strategic IRM planning into the annual budget process and coordinates IRM Treasury reporting requirements. The Data Administration branch oversees data analysis, design, development, implementation and maintenance of corporate databases to support OCC's operations.

In 1994, the IC continued to expand and improve the headquarters LAN. The headquarters LAN grew from approximately 750 user accounts at the close of 1993 to approximately 910. In response to customer requests and as part of an headquarters-wide initiative, approximately 450 work stations were upgraded with new software (Windows). A major objective for the IC staff in 1994 was to work on projects resolving OCC-wide problems such as LAN/PC development, Emc2/Vines Mail connectivity, and Windows implementation. The IC also implemented voice mail at the Washington headquarters.

In 1994, the Data Administration (DA) branch simplified and standardized the process to request DA assistance. Logical data model and data element standards were developed to provide flexibility in staffing application development projects. A generic work assignment tracking data model was developed, which can be used as a first step in any similar future applications. DA continued work on improving and migrating the Institution Data base to DB2 and on implementing a more useful Corporate Data Dictionary. The branch also provided support to many ADD development and maintenance initiatives.

In 1994, the Quality Assurance (QA) branch finalized and distributed the Information Systems Security Manual to OCC staff nationwide. QA continued to support an ambitious standards program issuing or updating more than 20 standards and technical bulletins. The branch completed the Database Development Methodology and began coordinating the agencywide Windows implementation project. The branch is also participating in the Examiner View Project, which will automate the bank examination function.

Applications Development

The Applications Development Division (ADD) is responsible for OCC's application systems design, implementation, and support. In 1994, ADD was reorganized to include five information system development and support branches (ISD&S1 - ISD&S5). The data administration (DA) unit moved to the Information Systems Coordination Division. The five ISD&S branches are responsible for supervision, administration, and finance systems.

More than 50 corporate applications were maintained and enhanced during the year. Additionally, a number of major initiatives were completed including: a redesign of the Corporate Activities Information System; implementation of the Shared National Credit LAN database; and development of the Product Tree application to monitor bank products and services.

Systems Support Division

The Systems Support Division (SSD), located at the OCC's Centre Pointe data center facility in Landover, Maryland, operates OCC's mainframe computer facility and its software, along with the agency's telecommunications network, including both voice and data. The division has five branches: computer operations; database administration; systems programming; telecommunications; and microcomputer and LAN support.

The Computer Operations branch runs the mainframe computer and oversees report processing and distribution. The branch assures that users can access the OCC's mainframe computer almost continuously. The branch also monitors and assures the security of the Centre Pointe facility. The branch provides production control support and assists OCC personnel with mainframe and personal computer problems. The Database Administration branch designs, builds, and maintains the OCC's physical databases. This branch supports network and relational database structures in mainframe and LAN environments. The Systems Programming branch maintains the operating systems that run mainframe hardware and also installs all software products used on the mainframe. The Telecommunications branch provides advice and support on telephone systems used at headquarters, district, field, and duty station offices. In addition, the branch manages the OCC data communications network and value added network (used when dialing in from remote locations). The Microcomputer and LAN Support branch maintains the OCC's office automation program for microcomputers and LAN hardware and software. The branch helps evaluate, select, and purchase office automation equipment and software; analyzes new or improved

technology; and develops policies for office automation hardware and software.

International Banking and Finance

The International Banking and Finance Department (IB&F) oversees OCC supervision of the federal branches and agencies of foreign banks in the United States and maintains OCC relationships with the international financial community and foreign supervisory organizations. The department provides policy advice and technical expertise and analysis to OCC on international banking and financial matters, including foreign regulatory trends, country risk evaluation, and the evolution of foreign financial systems, institutions, and supervisory and regulatory processes.

IB&F represents the OCC on interagency projects affecting international banking supervision policy and regulation. In 1994, these activities included:

- Cooperating with federal and state bank supervisors on specific initiatives in the supervision, licensing, and regulation of foreign banks operating in the United States.

- Completing, with Treasury Department International Affairs staff, the 1994 *National Treatment Study* on conditions of access to key foreign markets for United States financial institutions.

- Continuing to work with Treasury and Federal Reserve Board on negotiations with foreign supervisory organizations, to eliminate local capital-based limitations imposed on branches of United States banks in several European Union countries.

IB&F overseas the OCC's Federal Branch Program, which supervises, licenses, and regulates federal branches and agencies of foreign banks in the United States. In that regard, IB&F provides supervisory policy and procedural support and guidance to the OCC districts supervising federal branches and agencies. The department also serves as the focal point for information on foreign banks that operate federal branches and agencies and coordinates communications with those banks' supervisory authorities and their senior management.

In its role staff coordinator of OCC's participation in the Basle Committee on Banking Supervision, IB&F works with other OCC groups in support of U.S. efforts to achieve international harmonization. The department also conducts research on international economic and bank supervision matters and supports OCC examiners and other staff engaged in domestic and international supervisory activities as well as assisting in the development and implementation of OCC banking supervisory and regulatory policies.

IB&F also develops, analyzes and distributes information on the global banking and financial environment in which national banks operate; the banking, financial, and supervisory systems in the major countries of the world; and foreign banks that operate federal branches and agencies in the United States. As the OCC representative on the Interagency Country Exposure Review Committee (ICERC) of U.S. bank regulatory agencies, IB&F develops and analyzes information on and assesses risk in international lending, including the evaluation of transfer risk associated with exposures to countries experiencing difficulty servicing their external debt. Through IB&F, the OCC provides the permanent ICERC secretariat and rotates as Chair of the ICERC every third year.

IB&F personnel meet with foreign supervisory authorities to exchange information, resolve issues, and coordinate requests for data, background materials, training, and other technical advice. IB&F serves as the liaison with the Treasury Department, the International Monetary Fund, the International Bank of Reconstruction and Development (World Bank), and other external sources for formal programs to provide technical bank supervisory assistance to foreign governments. IB&F also helps prepare congressional testimony, furnishes staff for seminars, conferences, and training sessions related to international banking and supervisory issues, participates in overseas missions with international financial institutions, and assists in OCC examinations of the overseas operations of national banks.

Compliance Management

The Compliance Management Department is responsible for the OCC's compliance supervision and examination policies. Compliance is an integral part of the OCC's supervision of national banks. The department oversees the following areas of bank supervision: the Community Reinvestment Act (CRA); consumer protection laws and regulations; fair lending laws, principally the Equal Credit Opportunity Act and the Fair Housing Act; the Bank Secrecy Act (BSA); and fiduciary activities, including the program to administer the activities of national banks that act as transfer agents for stocks and bonds. The Compliance Management Department also employs several fair lending specialists.

The department participates in the FFIEC's trust supervision/capital committee and the FFIEC's consumer compliance task force and its subcommittees responsible for the CRA, the Home Mortgage Disclosure Act (HMDA), and enforcement issues. These interagency

task forces are designed to ensure that the financial institution regulatory agencies uniformly implement compliance with consumer and fiduciary laws.

In 1994, the OCC began implementing a compliance program instituted in 1993. Under the program, all banks will be examined for consumer compliance and fiduciary compliance at least once every other year. The program will be fully implemented in 1997. Approximately one third of all national banks were examined for compliance in 1994.

During 1994, the OCC, the Federal Deposit Insurance Corporation, the Federal Reserve, and the Office of Thrift Supervision evaluated responses to the jointly proposed revision to the CRA regulation published in December of 1993. Banks, thrifts, consumer and community groups, government officials, and others submitted more than 6,700 written comments on the proposal. In September 1994, after months of review and analysis, the agencies published a second proposal. The revised proposal seeks to establish a framework for assessing bank performance that includes many of the same elements as the December proposal. Rather than being assessed under 12 standards in the current rule, which focus largely on process and paperwork, a bank would be judged by its loans, investments, and services to its community. The agencies have attempted to provide guidance to financial institutions on the nature and extent of their CRA obligation and the methods by which the obligation will be assessed. The proposal seeks to emphasize performance rather than process, promote consistency in assessments, and reduce unnecessary compliance burden while stimulating improved performance.

In 1994, the OCC, along with eight other federal agencies, adopted a Policy Statement on Discrimination in Lending. The Policy Statement addressed the agencies' concern that some prospective home buyers and other borrowers might be experiencing discrimination in their efforts to obtain loans. The Policy Statement reiterated the agencies' commitment to effective enforcement of the fair lending laws and emphasized that lending discrimination based on any factor prohibited by law will not be abided. Following the adoption of the Policy Statement, the OCC issued further guidance discussing illegal lending discrimination on the basis of marital status and age.

During compliance examinations conducted in 1994, the OCC used the Interim Procedures for Examining for Racial and Ethnic Discrimination in Residential Lending issued in 1993. As a result of these examinations, the OCC found seven banks to have engaged in a pattern or practice of discrimination in violation of fair lending laws. The OCC's findings resulted in these banks being referred to the Department of Justice, as required by law. The OCC also found one bank to have engaged in an isolated violation of the Fair Housing Act and notified the U.S. Department of Housing and Urban Development (HUD) of its findings, as required by the Equal Credit Opportunity Act.

In addition, the OCC received 64 complaints alleging violations of the Fair Housing Act. In accordance with the OCC's Memorandum of Understanding with HUD, these complaints were referred to HUD for administrative processing and, if appropriate, investigation.

During 1994, the Compliance Management Department developed 25 issuances sent to national banks and examiners dealing with topics such as Community Reinvestment Act, Equal Credit Opportunity Act, Flood Disaster Protection Act, Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, Bank Secrecy Act, Truth in Savings Act, and Electronic Fund Transfers Act. The Department also provided guidance relating to the administration of collective investment funds and other fiduciary activities engaged in by national banks. Guidance was provided on the following topics:

- securities purchases for fiduciary accounts transacted with affiliated brokers,
- access of trust fund deposits through the use of a VISA check card,
- collateralization of Individual Retirement Accounts and Keogh deposits under 12 CFR 9.10(b), and
- Eurodollar deposits of the trustee bank as an investment of Short Term Investment Fund (STIF).

The department provided training to OCC examiners on fair lending examination procedures, CRA, the Real Estate Settlement Procedures Act, the Bank Secrecy Act, and the Truth in Savings Act. Through an electronic conference board, department staff provided OCC examiners with regular and timely responses to requests for clarification of consumer compliance regulations and examination policies.

In addition, department management and staff participated in conferences designed to inform the banking industry about supervisory priorities in fair lending, CRA, fiduciary, BSA and other compliance areas. One seminar in which the OCC participated provided information on fair lending issues to over 750 bank chief executive officers and directors.

Multinational Banking

The Multinational Banking Department supervises all national banks owned by the following companies: BankAmerica Corporation, Bank of Boston Corporation, BancOne Corporation, Chase Manhattan Corporation, Citicorp, First Chicago Corporation, NationsBank Corporation, First Union Corporation, and Wells Fargo Corporation. As of December 31, 1994, the national banks supervised by Multinational Banking held total assets of about $900 billion, representing 43 percent of the national banking system's total assets. The department also supervises severely troubled regional bank companies with national bank subsidiaries, oversees OCC's international examining activities and administers the Shared National Credit and Large Bank Programs.

The department's supervisory philosophy is to assess each bank's risk profile and ensure that the level of risk undertaken by that bank is appropriate and managed effectively. Examinations are conducted in accordance with the requirements of the Federal Deposit Insurance Corporation Improvement Act of 1991, which requires full-scope examinations of all national banks annually. Areas covered during examinations include global operations, asset quality, capital adequacy, management, earnings, capital markets activities, and adequacy of bank information systems. The department works closely with the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of Thrift Supervision to coordinate major interagency examination efforts.

The Multinational Banking Department's examination and supervision efforts are ongoing and, as much as practicable, anticipatory. Field examiners are permanently assigned to each multinational lead bank to promote communication and thereby enhance the OCC's ability to promptly identify and address emerging issues and risks. Washington-based employees maintain continuous dialogue with these field examiners to ensure that examinations identify risks and are proceeding as planned. This ongoing communication also allows the department to keep OCC management informed of significant events affecting the assigned institutions.

Examination strategies are developed annually for each of the multinational companies and revised or updated as necessary. These strategies are ongoing and relate closely to economic factors and financial marketplace developments. A critical element of the department's examination strategy is to maintain strong, consistent, and frequent communication with bank management, market participants, and industry analysts.

The department's Large Bank Program provides the framework for supervising all banking companies with assets over $5 billion. The program provides guidelines to ensure consistent and efficient supervision of all large national banks and provides a forum for addressing emerging issues or potential systemic risks.

The Shared National Credit Program is an interagency program designed to review and assess risk in many of the largest and most complex credits shared by multiple financial institutions. A shared national credit is defined as any loan or formal loan commitment aggregating $20 million or more, extended to a borrower by a supervised institution or any of its subsidiaries and affiliates. The credit must be shared by two or more institutions under a formal lending agreement, or a portion of the loan could be sold to one or more institutions with the purchasing institution assuming its pro rata share of the credit risk. The program's objectives are to provide uniform treatment of the entire credit, consistent classification, and efficient risk analysis.

Special Supervision

The Special Supervision Division (SPSU) supervises national banks in the most critical condition, monitors failing banks, coordinates bank closings, and helps determine OCC policy for the examination and enforcement of problem banks. In 1994, SPSU staff participated in working groups responsible for drafting revisions to 12 CFR 7. SPSU is also represented on an in-house task force involving the Examiner View project and on the Organizational Review Team project.

SPSU is the focal point for managing most critical bank situations in which potential for failure is high. An anticipatory approach is used in resolving these critical bank situations. The division deals with each bank individually, employing enforcement and administrative tools best suited to that bank's problems. SPSU approves the scope of examination activities, holds meetings with management and boards of directors, reviews corporate related applications, and processes reports of examination and correspondence for these banks. SPSU also helps problem banks to identify all possible

sources of outside capital. In 1994, these recapitalization efforts helped several banks avoid failure.

SPSU also provides general advice and guidance on problem bank issues to district offices and other OCC units, and develops examination strategies to enhance OCC's relationship with problem banks.

Economic and Policy Analysis Department

Bank Safety and Soundness

In 1994, the Economic and Policy Analysis Department (E&PA) contributed to the formulation and evaluation of OCC policies affecting national bank activities. E&PA assisted in the development of supervisory policy on derivatives, mutual funds, interest rate risk and credit concentrations, as well as capital rules for recourse transactions, available-for-sale securities, core deposit intangibles, collateralized transactions, and trust activities. E&PA also worked with the staff from the office of the Chief National Bank Examiner (CNBE) to develop bank circulars and examiner guidance on derivatives.

E&PA staged a major conference on systemic risk — Banking, Financial Markets and Systemic Risk. The papers and discussion by leading experts on the underlying nature of systemic risk, the channels for its transmission, and its implications for the financial system will be published in an academic journal.

E&PA staff participated in a number of field exams, working with examiners to develop more sophisticated tools for examining interest rate risk, mortgage banking, credit card, and securities-lending activities. E&PA further supported the supervisory process through participation in examiner training in quantitative methods and capital markets activities.

The CNBE together with E&PA completed a "best practices" survey of bank mutual fund customers that was designed to assess the effect of the sales practice standards established by the OCC.

Efficiency of Bank Supervision

The department, in the context of the steering committee and in several interdepartmental working groups, assisted in the revisions of OCC regulations to simplify and clarify their text and to reduce regulatory burdens on banks where practicable.

The 1994 research by E&PA staff concerning bank efficiency included studies of small business finance, "interbank" loan markets, the effect of risk-based capital standards on bank portfolio risk, cost efficiencies in banking, fee-based services and bank performance, deposit insurance, systemic risk, and objective measures of bank management quality.

E&PA worked closely with Multinational and the CNBE to develop a prototype industry sector analysis and a logistical plan for regular production and distribution of the reports.

The department participated in the cost/revenue working group that developed ways for the OCC to reduce assessments and other fees on national banks, the Supervisory Information Systems Review that recommended improvements in the ways that the OCC uses and manages supervisory information, and the analysis of the results of mutual fund examinations. The department is participating both in a review of the OCC's supervisory practices (under the Senior Deputy Comptroller for Bank Supervision Policy) and the Organizational Review Task Force.

The department also provided policy analysis and recommendations on proposals for consolidating the bank regulatory agencies, for revising the capital treatment of securitized small business loans, and legislation to allow interstate banking/branching.

Access to Financial Services

E&PA staged a major conference on Bank Lending to Small Businesses. The conference examined the importance of small businesses to the economy and the particular difficulties these businesses face in accessing credit. Participants also discussed innovative public-sector and private-sector initiatives of domestic and international community-based lenders aimed at overcoming impediments to small business lending.

In 1994, staff initiated studies to support the OCC's supervision of national banks for compliance with fair lending laws, including studies of demographic data for a fair lending "testing" program, reviews of statistical studies of mortgage pricing and lending patterns prepared by two national banks, and analysis of a credit-scoring model used by a national bank affiliated with a retailer. E&PA also completed a quantitative assessment of consumer credit pricing at a national bank. That study formed the basis for the SRC's recommendation to refer the bank to DOJ and HUD. Staff members also presented the results of a critical review of the Boston Fed study of mortgage lending discrimination at a conference attended by the press, academics, and regulators.

Members of E&PA also served as instructors for an OCC training course for compliance examiners, teach-

ing a module on the use of statistical tools in analyses of fair lending issues.

E&PA assisted in the development of proposed revisions to the banking agencies' CRA regulations. To help in the analysis of policy options, E&PA conducted numerous simulations using size, geographic location, and holding company status of banks to assess the relative burden of alternative CRA reporting and examination requirements.

Congressional Testimony and Staff Briefings

E&PA drafted 12 statements for the Comptroller to deliver to Congress in 1994, and conducted briefings to help prepare the Comptroller for those hearings. Hearings topics included mutual fund sales by national banks, consolidation of regulatory agencies, condition of the banking system, and bank use of derivative financial instruments. E&PA also drafted a CRA and a Fair Lending statement for the Comptroller to deliver to Congress in 1994, and organized and conducted briefings to help prepare the Comptroller for those hearings.

E&PA staff also briefed congressional staff on the performance of commercial banks and the major issues facing the banking system, including credit and interest rate risks, bank profitability, and significant changes in banking activities. It also responded to congressional inquiries on the significance of, and risk from, bank derivatives activities.

Economic Research and Outreach

The department prepared quarterly and annual reports on the performance and condition of the commercial and national banking systems and on major bank performance issues. The reports were presented to the Policy Group, Supervisory Policy Committee members, Treasury and the press, and were published in the OCC's *Quarterly Journal.* The Department also provided data and analyses to OCC, Treasury, Congressional staff, and the general public.

In 1994, E&PA staff conducted research on the relationship between bank lending and regional economic conditions, the impact of demographic factors on the physical location of bank facilities, the effects of failure resolutions methods on regional credit availability, national bank conversions, bank industry consolidation, cost efficiencies in banking, and foreign bank supervisory practices. The department also initiated research programs on the history of regulation and supervision of bank holding companies, loan quality and bank failure, determinants of foreign bank lending in the U.S., the operations and performance of foreign banks in the U.S., management strategies and bank profitability, performance of community based credit unions, and factors affecting sales of large loans by banks.

Staff members presented the results of their research in the department's seminar series, other oral presentations to OCC and external groups, *SuperVisions,* the OCC *Quarterly Journal,* and external publications — including leading academic and practitioner journals. Eight studies were published in the OCC working paper series designed to disseminate staff research to the policy, practitioner, and economics communities. E&PA staff attended leading economic/finance professional meetings, where they presented their research, chaired other sessions and, as panel discussants, gave critical reviews of outside research.

In an effort to further strengthen ties with other regulatory agencies and scholars, E&PA hosted six short-term visiting scholars, and one long-term visiting scholar, and staff are working on several joint research projects with economists at the Federal Reserve Banks of Chicago, New York, and Kansas City; the Board of Governors; the Canada Deposit Insurance Corporation; and the German Bank Supervisory Agency.

Public Affairs Department

The Public Affairs Department, headed by a deputy comptroller, provides information to the public and the press and publications services. Public information services include answering general inquiries about the agency's mission and handling requests filed under the Freedom of Information and Privacy Acts. Press relations services include issuing press releases and responding to press inquiries in a timely fashion. The department's publication services include editing and producing ongoing OCC publications such as the *Quarterly Journal*, the *Comptroller's Manual for National Banks*, the *Comptroller's Manual for Corporate Activities*, and the *Comptroller's Handbook for Compliance*, and editing and disseminating OCC policy issuances such as advisory letters and banking bulletins.

The Public Affairs Department serves as the main point of contact for outsiders other than banks and projects the OCC's mission and activities to the public, particularly the news media. As liaison between the Comptroller and the press, the department's press relations office organizes press briefings, responds to requests from the press for interviews with the Comptroller and senior management, and provides explanations of OCC initiatives and proposals. The department takes calls from the media throughout the day and usually provides a response the same day to meet daily press deadlines.

The department also prepares news releases on significant OCC actions including submissions to the *Federal Register*. The department tracks securities filings of publicly held national banks, maintains a central file of OCC enforcement actions, and monitors corporate applications.

Publications personnel in the Communications Division provide editorial and writing assistance to other OCC units and work with external contract printers to publish official OCC publications. New publications for 1994 included three booklets of the revised *Comptroller's Handbook*, a four-book set of *Banking Regulations for Examiners*, and the expanded 1994 *National Treatment Study*. The department also produces internal publications such as *SuperVisions*, a monthly employee newsletter, and distributes OCC issuances and other policy papers to national bank examiners and national banks.

Under the authority delegated by the Comptroller, the department is responsible for making initial determinations on requests for records of the OCC under the Freedom of Information Act and the Privacy Act of 1974. In 1994, the department processed 3,454 such requests. These requests are made for any and all documents in the OCC's files; response is required within 10 business days. Documents routinely made public in 1994 by the Communications Division included 218 enforcement actions, 873 Community Reinvestment Act evaluations, and 221 Securities Act filings.

Banking Relations

The Banking Relations Division acts as liaison with bankers, state bankers, associations, banking trade groups, and state bank supervisors.

The division provides advice to the Comptroller and senior policymakers and is responsible for identifying proposed regulatory and industry actions that relate to OCC activities. It formulates specific approaches for ensuring that OCC's position is presented and that information is disseminated.

The division recommends new policies, concepts, and procedures to guide the OCC in its relationship with the banking industry. It prepares and directs the preparation of briefing materials for use in meetings with OCC officials and banking industry groups. It also assists with preparation of testimony or presentations for the Comptroller and senior officials.

The division maintains state-by-state in-depth analyses of banking legislation and major issues including existing, proposed, and potential legislation.

Congressional Liaison

The Congressional Liaison Division is responsible for the OCC's relations with members of Congress, congressional committees, subcommittees, and staff.

The division provides analysis and advice to the Comptroller and senior OCC policymakers on congressional activities that affect or could affect the OCC, the national banking system, or the financial services marketplace. It also offers guidance on potential congressional reaction to OCC actions.

As part of its responsibilities, the division maintains regular contact with congressional members, committees, subcommittees, and staff to promote effective communication and ensure that OCC's interests are represented.

The division is the focal point of congressional inquiries, including requests for testimony, staff studies, or other support. It assists in the preparation of testimony, comments, briefings, and staff studies relating to congressional actions, as well as responses to constituent inquiries. The division provides any other necessary liaison and information services relating to congressional and legislative matters.

Community Development

The Community Development Division (CDD) provides policy guidance to the OCC on community development issues that affect national banks, their customers, and bank community and consumer organizations. The division develops OCC initiatives related to the creation of affordable housing for low- and moderate-income persons, the provision of technical assistance and financing for small, minority, and women-owned businesses, and the economic redevelopment of low- and moderate-income areas.

The division developed the policy components of the charter approval for the first national bank with a community development focus, Neighborhood Development Bank, N.A., in San Diego, CA. It was also the first time the OCC permitted national banks to become equity investors in another national bank.

The CDD continued to publish its quarterly newsletter, *Community Developments*, designated to provide national bank and other interested persons with highlights of innovative bank community development programs, regulatory updates on community issues, and news of federal and state programs that might be of interest to national banks. Over 2,500 bankers, community representatives, and others are subscribers.

The CDD continued to be the lead unit responsible for sharing information with consumer, community, small business, national intermediary, government, and housing groups. The CDD arranged 14 informal meetings with representatives of 167 national and local groups with the Comptroller and senior OCC staff. These meetings provided the opportunity for frank dialogue between the OCC and bank customer groups and created a forum to discuss important issues. In addition to the monthly meetings, the CDD provided the national bank customer groups with information through mailings and briefings. Through small meetings, informal contacts, and speaking engagements, the CDD continued to obtain the view of these groups and advise OCC policymakers on matters affecting consumers and communities. The CDD also responded to approximately 700 inquiries from bank customer groups and national banks on issues involving community development lending, fair housing, and the Community Reinvestment Act (CRA), and community development investments.

The CDD provided support to a number of working groups in the OCC as well as serving on interagency working groups. CDD staff continued to participate on the OCC working groups responsible for Community Development Financial Institutions, Native American Issues, CRA and Fair Lending. CDD staff also participated on the OCC working group to monitor a "tester" program to help identify fair lending violations in national banks. In other interagency activities, the CDD continued to participate in the Securities and Exchange Commission's Government-Business Forum on Small Business Capital Formation, with CDD's director serving on the executive committee. CDD staff also participated on the Section 308 Interagency Working Group that explored ways to increase the number of minority-owned financial institutions and support their development.

In 1994, the CDD developed a banking issuance to support the regulation concerning national bank investments in community development corporations (CDCs) and community development projects (CD projects). The regulation (12 CFR 24) became effective December 31, 1993. It permits national banks that meet certain criteria to make most CDC and CD-project investments using a brief self-certification notice of compliance with the rule. CDC and CD-project investments are equity and special debt investments that banks provide to organizations whose primary purpose is to serve the public welfare. These investments supplement a bank's regular and creative lending and investing programs to help meet credit, investment, or other community needs of low- and moderate-income persons or small businesses, including minority-owned small businesses.

The CDD approved 218 national bank investments in community development corporations and community development projects in 1994. Of this total, 104 new CDCs and CD projects were approved. In addition, 114 national bank investments were made in several previously approved community development corporations and projects. CDCs and CD projects approved during the year represented national bank and other partner investments of approximately $669.6 million compared with $473.4 million for 1993. The CDD also continued to publish an annual directory of all CDCs and CD projects approved by the OCC.

In 1994, the division continued to support the Comptroller in his capacity as a statutory member of the board of directors and vice chairman of the Neighborhood Reinvestment Corporation. The division also served as OCC liaison for the Department of Treasury Consumer Affairs Council.

Bank Organization and Structure

Bank Organization and Structure establishes policies affecting the corporate activities of national banks. It reviews individual and national bank applications to engage in bank activities requiring OCC headquarters approval, monitors and provides advice about the most significant applications, and strives to maintain effective quality control and information systems that support decentralized licensing operations.

The number of applications filed with the OCC increased by 18 percent in calendar 1994 from 4,015 to 4,736. Filings for automated tellers machines (ATMs) made up the bulk of this increase. Applications for ATMs have more than doubled in the past two years, increasing from 1,317 in 1992, to 1,957 in 1993, and to 2,706 in 1994. Large percentage increases in filings were also seen in new bank charters and operating subsidiaries.

New charter applications almost doubled in 1994, rising to 35 from 18 in the previous year. OCC received 14 charter applications from independent banks during 1994. Of these, nine were for full service banks, three were for trust banks, and two were for credit card banks. The other 21 charter applications received were sponsored by bank holding companies. Of this group, 15 were for full service banks, five were for trust banks, and one was for a credit card bank. Operating subsidiary filings also increased from 137 in 1993 to 190 in 1994.

Consistent with previous years, almost all applications decided in 1994 were approved. While only three applications were denied during the year, 100 applications were approved with conditions imposed by OCC. OCC district offices and Multinational Banking approved 96 percent of all applications decided in 1994 under delegated authority.

Summaries of important corporate decisions for the previous quarter are published in each issue of the *Quarterly Journal*.

Licensing Policy and Systems

The Licensing Policy and Systems Division (LP&S) develops and implements general policies and procedures for the corporate activities of the OCC. The development objective includes ongoing consultation with bank structure analysts in Washington and the districts and special projects, such as coordinating a major revision of the *Corporate Activities Manual* to reduce application burdens and speed application processing. The implementation objective includes responsibility for the OCCs licensing quality assurance program and maintaining databases, such as the Corporate Activities Information System and the Institution database.

Significant projects during calendar 1994 included the following:

- LP&S contributed significantly to proposals issued in late November 1994 to revise 12 CFR 5 regulation revisions. OCC proposed to reduce burdens imposed by corporate activities regulation for national banks, especially those that have been rated satisfactory or better in their financial health and Community Reinvestment Act performance. For this select group of banks, corporate licensing requests will automatically be approved after a specified time period, usually 30 days.

- LP&S conducted its annual quality assurance review of district operations in 1994. This review consisted of statistical review of time frame performance, review of filings showing timeframe exceptions, and onsite performance reviews. Visits were made to all district offices and to Multinational Banking in Washington.

- LP&S took the lead in implementing reduced application fees for licensing applications. Corporate fees were reduced for 26 types of filings by an estimated 56 percent overall, but exact changes differed by application type. The fee for a typical branch application, for example, was reduced from $1,900 to $700. While this new fee schedule was under development, LP&S implemented policies and procedures for handling requests for fee concessions.

- LP&S provided administrative support for the Organizational Review Team (ORT). ORT reviewed the various business functions of the OCC and provided the Comptroller with recommendations for improving the timeliness and responsive of agency supervision, licensing, and regulation.

- LP&S participated in OCC working groups to develop a new regulation (or procedures) implementing the Community Reinvestment Act (CRA) of 1977, to permit national bank affiliates to offer mutual funds, and to reduce the regulatory burden of complying with the Depository Institutions Management Interlocks Act.

- LP&S monitored and reported on the conversion of national to state bank charters (and vice versa), national bank applications protested on CRA grounds or conditioned on CRA improvements, and the acquisition of thrifts by national banks.

- LP&S worked with the Applications Development to implement and refine the Corporate Activities Information System (CAIS) during 1994. CAIS is a database system for tracking all corporate filings, decisions rendered in Washington or the districts, and consummations of corporate transactions. In addition to assisting in bringing CAIS online, LP&S staff audited CAIS data for consistency and accuracy. CAIS data are used to prepare OCC publications, such as the *Weekly Bulletin* and the *Quarterly Journal*, ad-hoc statistical reports, quality assurance tabulations, and policy analyses on licensing activities.

- LP&S assumed data stewardship responsibility in 1994 for the Institution Database (IDB). The IDB maintains data on all national banks and their branches, state Federal Reserve member and non-member banks, thrifts, and some other financial institutions. LP&S staff reviewed active national bank and branch information for accuracy and have worked to assure that the data are complete and up to date.

Law Department

In 1994 the Law Department continued its active participation in advancing the Comptroller's priority initiatives. A top-to-bottom review of all of the OCC's regulations resulted in the development of several revised and proposed rulemakings, written in plain English, that significantly reduced regulatory burden. The department worked on several significant litigation matters in the areas of insurance and annuities, and engaged in substantial interpretive and advisory work with regard to geographic expansion of national banks, expanded powers for national banks and sales of uninsured investment products.

To meet the needs of its changing workload, the Law Department in 1994 made several changes in its organizational operations. A new division, the *Community and Consumer Law Division*, was established to provide a focal point for the department's legal advice and interpretations with regard to consumer and community development laws and regulations and associated policy issues. Another new division, the *Bank Activities and Structure Division*, was formed from the former Bank Operations and Assets Division and Corporate Organization and Resolutions Division. Issues relating to capital markets were centralized in the renamed *Securities and Corporate Practices Division* (formerly Securities, Fiduciary and Investment Practices Division) and issues relating to capital regulations were assigned to the newly renamed *Legislative and Regulatory Activities Division* (formerly Legislative, Regulatory and International Activities Division). Finally, the *Administrative and Internal Law Division* was established to handle legal advice relating to OCC administration and operations.

The District Counsel legal staffs, located in each of the OCC's six District Offices, continued to provide legal advice and counsel to district management and examining personnel, as well as to national banks and bank counsel. The district legal staffs work with bank supervisory personnel on enforcement matters and participate in a number of interagency initiatives such as local bank fraud working groups. District Counsel coordinate on a variety of issues with Washington Division Directors and have been designated as the OCC ethics officials in the districts.

Administrative and Internal Law Division

The Administrative and Internal Law Division (AIL) is responsible for providing legal advice and other service and support to the OCC on issues and matters relating to its management and operations as a federal agency. Within the Law Department, the division is also responsible for providing assistance to the Chief Counsel in various aspects of the department's internal administration, including the recruiting and training of personnel.

In 1994, AIL personnel provided legal advice on OCC administrative matters such as procurement, real estate leasing, human resources, and financial management. In addition, in conjunction with the District legal staffs, AIL personnel further refined the agency's policies and procedures for administering the OCC's ethics policies and the Department of the Treasury's Standards of Conduct. With its formation, the Division has also assumed responsibility for issues arising under the Freedom of Information Act as well as the Privacy Act of 1974.

Bank Activities and Structure Division

The Bank Activities and Structure Division (BASD), created in the fall of 1994, combines the former Bank Operations and Assets Division (BOAD) and Corporate Organization and Resolutions Division (CORD). BASD provides legal advice on structural issues such as interstate branching, cross-industry mergers and acquisitions, special purpose banks, and questions relating to failing banks. In addition, it is responsible for issues relating to general bank powers under the National Bank Act, Bank Holding Company Act, Federal Reserve Act, Federal Deposit Insurance Act, Change in Bank Control Act, Management Interlocks Act, Bank Merger Act and other statutes applied to national banks. BASD works closely with a number of other OCC units, including Bank Organization and Structure, Multinational Banking, Chief National Bank Examiner's Office, International Banking and Finance and Special Supervision as well as other Law Department units, including OCC district legal staff. It also provides interpretations and advice on questions relating to lending limits, real estate and other banking laws.

Significant BASD projects, advice, opinions and comments are summarized below. Interpretations issued by OCC staff are published in the "Interpretations" section of the *Quarterly Journal* and the OCC publication *Interpretations and Actions*.

Advisory Matters

- Legal analysis approving several main office interstate relocations followed by merger with retention of branches in both states.

- Providing legal advice and assistance in the closing of insolvent or undercapitalized banks.

- Participating in a working group investigating the possibility of uninsured banks, including issues related to chartering, receivership, liquidation and termination of a previously insured bank's insurance.

- Working with OCC supervisory personnel and the Justice Department on antitrust issues raised by bank mergers.

- Participating in working group investigating a bank's ability to be a general partner in an industrial loan corporation, including issues related to structure, jurisdiction and procedure.

- Reviewing issue of whether acquisitions of assets comprising a complete line of business is subject to review under the Bank Merger Act.

- Analyzing the extent of a bank's ability to participate in a Limited Liability Company.

- Participating in interagency establishment of a Bridge Bank.

- Providing advice on OCC receivership and conservatorship issues.

- Authorizing a national bank to sell credit-related property, liability and key-man life insurance.

- Allowing a national bank to establish a non-profit organization to run its Christmas charity drive without it being considered an operating subsidiary.

- Consulting on the chartering of the first Community Development Bank.

- Agreeing that a national bank may operate a mobile CBCT.

- Determining that an independent messenger service that picks up deposits from customers is not a branch.

- Determining that a national bank office that engages in indirect lending by purchasing retail loan contracts from automobile dealers is not a branch.

Regulatory Matters

- Participating in the revision of 12 CFR Parts 5, 7, 9, 27, 32 and 34.

- Reviewing and counselling the General Accounting Office on appraisal regulation governing qualifications and independence of individuals preparing evaluations.

- Drafting of Notice of Proposed Rulemaking which would amend 12 CFR 5 to provide that a bank lacking FDIC insurance may not accept deposits other than trust funds without the prior approval of the OCC.

Community and Consumer Law Division

The Community and Consumer Law Division (CCL) provides legal interpretation and advice on consumer protection, fair lending and community reinvestment issues. The division is also responsible for providing legal advice on issues related to bank community development powers and activities, including activities conducted within the bank, investments in community development corporations and projects, and participation in community development financial institutions.

Significant CCL projects in 1994 are summarized below:

Advisory Matters

- Participating in an interagency working group to develop guidance for the industry and the public about discrimination in lending. A "Policy Statement on Discrimination in Lending" was published in the *Federal Register* in April 1994. CCL acts as chair of the interagency group, which is continuing to work to provide published guidance that expands upon the Policy Statement and that addresses emerging fair lending legal questions.

- Preparing guidance to examiners and the industry about "Marital Status Discrimination," under the Equal Credit Opportunity Act.

- Participating in a working group to develop guidelines and procedures for chartering community development national banks and for allowing other national banks to invest in them. The OCC has granted preliminary charter approval to Neighborhood Development Bank in San Diego, CA, as a community development national bank.

- Providing legal advice to OCC compliance management personnel on a variety of consumer compliance, fair lending and enforcement matters.

- Assisting OCC compliance management personnel in providing advice to field examiners on various consumer compliance issues.

- Providing legal advice and assistance to OCC community development specialists regarding banks' proposed community development corporation and project investments.

- Speaking to bankers, members of the bar, and within the OCC, particularly on topics such as discrimination in lending and Community Reinvestment Act regulation reform.

- Participating in a working group of Treasury Department agencies to review and provide comments on a significant Department of Housing and Urban Development rulemaking affecting government-sponsored enterprises (such as FNMA).

- Providing legal advice and assistance to an OCC working group to devise a program using "shoppers" to test for preapplication lending discrimination by regulated banks.

Regulatory Matters

- Leading an interagency working group to develop new Community Reinvestment Act regulations. The OCC and other regulatory agencies first published a notice of proposed rulemaking in December 1993. After considering the many comments received, the agencies published a second notice of proposed rulemaking in October 1994.

- Developing an amended 12 CFR 27 on the OCC's Fair Housing Home Loan Data System.

Paralegal Unit

CCL's paralegal specialists provide services in consumer protection and other areas, including reviewing and responding to consumer complaints involving national banks, particularly appeals of consumer complaints forwarded by OCC's six districts. During 1994, the unit received 953 consumer complaints and completed 935 responses to complaints and handled over 1,000 telephone inquiries from consumers. As in previous years, the unit also provided assistance to Law Department attorneys

Enforcement and Compliance Division

The Enforcement and Compliance Division (E&C), in conjunction with the districts, recommends administrative actions and presents and litigates these actions on behalf of the OCC in administrative proceedings. The division may also help defend these actions if they are challenged in United States courts of appeals. E&C also handles challenges to temporary cease and desist orders and suspensions which have been filed in district court. The division also supports criminal law enforcement agencies and provides advice on enforcement and compliance issues to senior OCC officials.

During 1994, the OCC issued 33 commitment letters, 15 memoranda of understanding, 17 formal agreements, 10 cease and desist orders against banks, 16 cease and desist orders against individuals, 1 temporary cease and desist order, 1 suspension and 37 removals, and 98 civil money penalties (CMPs). E&C handled non-delegated actions, while the OCC's districts handled delegated actions. In its administrative cases, the division held numerous prehearing conferences and conducted five administrative hearings.

In early January 1994, an administrative hearing was conducted in Dallas, Texas, involving an appeal by Janet F. Acker of the OCC's denial of her application to acquire control of Interstate National Bank, Dallas, Texas, in mid-1993. The OCC denied Acker's change in bank control application in August 1993, based on Acker's continued refusal to furnish the OCC with complete financial and tax information, as required under the Change in Bank Control Act, 12 U.S.C. 1817. To date, no final ruling has been issued.

On March 14, 1994, an administrative hearing continued relating to prohibition, civil money penalty, and reimbursement actions against Donald E. Hedrick, former chairman of the board and president of the Rushville National Bank, Rushville, Indiana, and prohibition and CMP actions against John Snyder, former director of the bank. The OCC has alleged that Hedrick and Snyder violated laws and regulations applicable to national banks, engaged in unsafe or unsound practices, and breached their fiduciary duty to the Bank. The OCC is seeking to prohibit Hedrick from banking, a penalty of $250,000, and reimbursement of unjust enrichment of $505,000. The OCC is seeking a CMP of $25,000 against Snyder, in addition to prohibition. The hearing had opened in June, 1993, to take the testimony of Mr. Snyder. It is scheduled to reconvene on March 27, 1995.

In June 1994, an administrative hearing was held regarding alleged violations by William Sarsfield, former chairman of the board of Sequoia National Bank, San Francisco, California. The OCC charged that Sarsfield was responsible for the bank's failure to comply with seven Articles of the March 1992 Consent Order. He

failed to ensure that the bank complied with the Articles requiring it to improve its liquidity position and reporting methodology, to reduce its percentage of volatile liabilities, to revise its loan policy, to improve its loan review function, to improve its methodology for allowance for loan and lease losses, to reduce its credit exceptions, and to maintain adequate capital. The OCC also is seeking to impose a CMP of $15,000 on Sarsfield. The matter is currently pending before an administrative law judge.

On November 14, 1994, an administrative hearing commenced relating to CMP and prohibition actions against Edward Towe, former president and director of First National Bank & Trust, Wibaux, Montana, and Thomas Towe, former director and chairman of the board of the bank. The OCC has alleged that Edward Towe and Thomas Towe violated a cease and desist order that was placed upon the bank, recklessly engaged in unsafe and unsound practices, and breached their fiduciary duty to the bank. The OCC is seeking the assessment of a $200,000 CMP against Edward Towe and the assessment of a $150,000 CMP against Thomas Towe. The hearing will reconvene on June 5, 1995.

In December 1994, an administrative hearing was held regarding William Vasa, former vice-president and loan officer of the First National Bank of Southeast Denver, Denver, Colorado. The OCC charged that Mr. Vasa used preexisting customer accounts and fictitious names in order to originate bogus loans for his personal benefit. These loans subsequently fell into default causing a substantial loss to the Bank. The OCC is seeking a permanent prohibition from banking as well as restitution in excess of $50,000 from Mr. Vasa. To date, no final ruling has been issued.

In January 1994, the former president and director of a national bank consented to a removal from banking and agreed to pay restitution and CMPs of up to $135,080, based on a percentage of his income over a four-year period. His son also consented to a removal, and agreed to pay up to $409,914 as restitution, based on a percentage of his income over a five-year period. Another former director agreed to pay restitution of up to $76,714, based on a percentage of his income over a four-year period. The restitution portions of the payments will go to the FDIC, since the bank failed in 1991. All three parties were alleged to have engaged in unsafe and unsound practices. All three had allegedly received payments from a brokerage corporation set up by bank insiders, for the purpose of brokering note sales to the bank. Some of the officers, directors and shareholders, including the president, his son and the former director mentioned above, were allegedly paid excessive "commissions" using bank money channelled through the brokerage agency. At least two others allegedly received "commissions," even though they performed no brokerage activities of any type.

On January 12, 1994, the First National Bank of Vicksburg, Vicksburg, Mississippi, entered into a stipulation and consent order with the OCC. The OCC contended that examiners had found disparate treatment of unsecured home improvement loan applicants during a fair lending examination of the bank. The alleged disparate treatment involved a pattern and practice of charging similarly situated African-American applicants significantly higher interest rates than those charged Caucasian applicants. Key provisions of the settlement included a $750,000 compensation fund for approximately 150 identified victims; special loan programs that will make at least $1 million available to low- and moderate- income applicants; a customer assistance and information program; revisions to the bank's loan policy, incorporating the prohibitions of the fair lending laws; creation of a loan review system to detect disparate treatment; training every officer, director and credit employee in the purposes and prohibitions of the fair lending laws; and a requirement that the bank contract for matched-pair testing. The OCC's action was taken jointly with the Department of Justice (DOJ), which entered into a consent decree with the bank containing many of the same remedial measures.

In December 1994, Michael A. Jacobs consented to several enforcement actions following a joint investigation conducted by the Northeastern District Office of the OCC and the Federal Reserve Bank of New York. Jacobs was chairman of the board of the former First National Bank of Downsville, Downsville, New York, president and director of the former First National Bank of Amenia, Amenia, New York, former director of the First National Bank of Lisbon, Lisbon, New York, and chairman of the banks' holding company, United Bank Corporation of New York. In addition to other alleged violations of banking law and unsafe and unsound practices, Jacobs allegedly orchestrated deceptive loan and accounting transactions to enhance the financial condition of the holding company in order to obtain regulatory approval for the acquisition of branches of a failed bank by the Downsville Bank. Jacobs agreed to pay a CMP of $100,000 and to comply with an order prohibiting him from banking. In addition, Jacobs agreed to repay $4,482,500 in loans to several banks according to their original terms.

In other activities in 1994, E&C worked closely with the Interagency Bank Fraud Working Group (BFWG) which operates under the auspices of the Department of Justice (DOJ). The BFWG continues to improve coordination and cooperation between the federal financial

institutions regulatory agencies and the DOJ. Some of the division's contributions to the BFWG are as follows:

- Attending and participating in all regular meetings of the BFWG as well as special programs to facilitate better cooperation between prosecutors and bank regulators;

- Support and teaching at the FFIEC Testifying and White Collar Crime Schools and together with the FBI, jointly sponsoring quarterly training sessions of examiners and investigators;

- Finalizing changes to the interagency criminal referral process to ensure its benefits are continued but its burdens are reduced;

- Working toward implementation of the Financial Crimes Enforcement Network;

- Updating and distributing copies of the BFWG directory;

- Actively participating in numerous local BFWGs throughout the country;

- Working to establish guidelines for regulatory agency access to grand jury information;

- Developing and distributing guidance to all federal agencies on the legal requirement to provide the bank regulatory agencies with safety and soundness information;

- Developing guidelines on preservation of privileges when documents are transferred to the DOJ or other agencies;

- Exchanging information on various bank frauds and other activities that may pose a threat to the system and issuing interagency alerts where appropriate;

- Working to establish programs to address credit card and check fraud;

- Improving interagency efforts to conduct background checks on individuals seeking to enter the banking industry.

The OCC has also sought to improve coordination with the other federal bank regulatory agencies through regular meetings designed to enhance the overall effectiveness of our enforcement efforts. At these meetings, representatives of the financial institution regulatory agencies gather to exchange information regarding enforcement activities, discuss differences in policies or practices among the various agencies, and present new ideas on improving the regulatory process. This improved communication among the regulators promotes efficiency and consistency in the regulatory process.

E&C's offshore shell bank unit continues to provide information and expert testimony to local, national, and international law enforcement authorities. The division also continued to alert the banking industry to fraudulent or questionable offshore shell bank practices.

Counselor for International Activities

The Counselor for International Activities (IA) serves as the Law Department's focal point for, and provides legal advice on, a wide range of international banking issues. In 1994, the Counselor's office worked on the revision of the OCC's international banking regulations, including the implementation of the foreign bank provisions of the Riegle-Neal Interstate Banking Act of 1994. It also coordinated the Law Department's efforts and provided legal advice on corporate, supervisory, and regulatory matters, the most significant of which were —

- Agenda items of the Basle Committee of Bank Supervision, such as netting and market risk;

- Development of an interagency program for the supervision of foreign banks' operations in the United States;

- Work with foreign bank supervisors to eliminate capital-based restrictions on U.S. banks' operations in foreign countries. In 1994, an understanding to this end was reached with the German bank supervisors;

- The application of national bank laws, regulations, and policies to federal branches and agencies; and

- The National Treatment Study of 1994, as well as other matters dealing competitive equality of foreign and domestic banks.

The Counselor's office worked closely with the other federal banking agencies on regulatory and supervisory matters regarding international banking, and provided advice to the Treasury Department and other federal agencies regarding international banking and trade, including the financial services chapter of the General Agreement on Trade and Services. As part of the OCC's outreach effort, the Counselor sponsored in December 1994 a Foreign Bank Counsel Forum, and participated and spoke in outside meetings and conferences.

Legislative and Regulatory Analysis Division

The Legislative and Regulatory Analysis Division (LRAD) is responsible for providing legal advice on legislative and regulatory issues as well as providing legal advice on the management and operations of the OCC. The division analyzes proposed banking legislation and regulations, providing advice on legal issues. The division coordinates interagency initiatives involving banking legislation and regulations.

In 1994, LRAD coordinated analysis of all proposed banking legislation introduced during the second session of the 103rd Congress. It reviewed legislation relating to the OCC's supervision of national banks. LRAD also helped prepare OCC testimony before Congress, helped formulate OCC positions on pending legislation, responded to congressional inquiries, and drafted OCC legislative initiatives.

LRAD helped monitor and provide comments to Congress on proposed legislation dealing with:

- Interstate Banking and Branching
- Community Development Banks and Financial Institutions
- Regulatory Burden Reduction
- Regulatory Consolidation
- Securitization of Bank Assets
- Government Securities
- Community Reinvestment Act
- Bankers Bank
- Flood Insurance
- Electronic Monitoring
- Paperwork Reduction

LRAD's regulatory duties included reviewing, coordinating, and assisting in the development of OCC rules and notices. Most significantly, LRAD is responsible for managing the Comptroller's Regulation Review Project. The Project will review and revise all of OCC's regulations to increase clarity, reduce unnecessary burdens, and include appropriate innovations. The division also prepared the OCC's semiannual agenda of regulatory actions and the OCC's regulatory objectives for the regulatory program of the United States government. Among the most noteworthy rules and notices published by OCC during 1994 were:

- Capital Treatment of Bilateral Netting Agreements, OCED Government obligations, Recourse Arrangements, Concentrations and Non-traditional Activities and FAS 115 (Part 3)
- Rules, Policies, and Procedures for Corporate Activities (Part 5)
- Assessments of Fees (Part 8)
- Securities Offering Disclosure Rules (Part 16)
- Rules of Practice and Procedure (Part 19)
- Lending Limits (Part 32)

Litigation Division

The Litigation Division (LIT) represents OCC in court. During 1994, Congress conferred partial independent litigating authority on OCC in Section 331(d) of the Riegle Community Development and Regulatory Improvement Act, Pub. L. No. 103-325. Nevertheless, the Division expects to continue working with the U.S. Department of Justice and U.S. Attorneys on cases of mutual interest.

During the year, the appellate courts handed down several decisions, and several other cases were given oral argument. The most significant cases concerned bank powers, corporate organization and structure, and disclosure of confidential information.

Bank Powers

Ludwig v. Variable Annuity Life Ins. Co. On December 8, 1994, the U.S. Supreme Court heard oral argument on whether national banks can lawfully sell annuities. Earlier in the litigation, the U.S. Court of Appeals for the Fifth Circuit held that annuities are insurance products and, as such, may be sold only by national banks in places of fewer than 5,000 inhabitants. The OCC, which believes that annuities should be characterized as financial investments that all national banks may sell, then successfully sought Supreme Court review. With the case fully briefed and argued, the Supreme Court is expected to render its decision in mid-1995.

Owensboro Nat'l Bank v. Stephens. On December 29, 1994, the U.S. Court of Appeals for the Sixth Circuit held that Kentucky's anti-affiliation laws, prohibiting banks from engaging in the insurance business, are not protected by the McCarran-Ferguson Act from being preempted by a federal statute authorizing small town national banks to sell insurance. The court agreed with OCC, which intervened in the case on the side of three Kentucky national banks, that 12 U.S.C. § 92, the small town insurance agency statute, must prevail over prohibitions in Kentucky law. Crucial to its decision was the court's holding that the Kentucky laws were not enacted "for the purpose of regulating the business of insurance" within the meaning of the McCarran-Ferguson Act. One judge dissented.

Barnett Bank of Marion County, N.A. v. Gallagher. On September 19, 1994, the Eleventh Circuit Court of Appeals heard oral argument on whether the McCarran-Ferguson Act protects the insurance laws of Florida from preemption by 12 U.S.C. 92. In many respects, the

issues in this case are similar to those in *Owensboro Nat'l Bank*, above.

Corporate Organization and Structure

Golden Pacific Bancorp v. U.S. On February 8, 1994, the U.S. Court of Appeals for the Federal Circuit rejected a claim that OCC's actions in closing Golden Pacific National Bank amounted to a "taking" for which the United States must provide compensation. According to the court, the highly regulated nature of the banking industry did not permit Golden Pacific to develop a "historically rooted expectation of compensation" for OCC's actions. Moreover, OCC's actions could not have interfered with reasonable investment-backed expectations. The court also said that OCC is not estopped from closing the bank merely because the agency had not criticized certain aspects of the bank's operations in earlier examinations. Following the Federal Circuit's decision, the Supreme Court refused to grant further review.

Hammond v. Comptroller of the Currency. On November 23, 1994, the U.S. Court of Appeals for the Tenth Circuit ordered this challenge to an OCC determination under section 914 of FIRREA to be transferred to a U.S. District Court. Although the Tenth Circuit expressed no view on the merits, the case is one of the few challenging a banking agency's disapproval of a bank officer or director. In its decision, OCC disapproved the individual for the position of president and chief executive officer on the ground that while serving as the president of another bank, he had engaged in a loan transaction violating the anti-tying statute, 12 U.S.C. 1972. As a result of the Tenth Circuit's action, the case has been transferred to the U.S. District Court for the District of Kansas.

Disclosure of Confidential Information

Fairfield v. Houston Business Journal. On September 1, 1994, the U.S. Court of Appeals for the Fifth Circuit affirmed, without opinion, a district court decision that OCC's refusal to produce certain confidential documents was not arbitrary or capricious under the Administrative Procedure Act.

Other Activities

The Litigation Division also drafts administrative decisions for the Comptroller and represents OCC before the Equal Employment Opportunity Commission, the Merit Systems Protection Board and the General Services Administration Board of Contract Appeals.

In one significant administrative decision, the Comptroller concluded that under the circumstances, a series of 23 loans to 23 corporations under common ownership should be combined for purposes of the statutory lending limit, and that these same loans constitute an unsafe and unsound concentration of credit. In another decision, the Comptroller found that a lawyer who had participated in unsafe or unsound practices in connection with a bank's lending was an "institution affiliated party" and therefore liable for a civil money penalty and a cease and desist order requiring restitution.

Both of these administrative decisions are now before the appellate courts on petitions to review.

Securities and Corporate Practices Division

The Securities and Corporate Practices Division (SCP) provides legal counsel to the OCC and advises the public on federal securities and banking laws related to bank securities activities; bank sales of mutual funds, annuities, and insurance; bank derivative activities; bank fiduciary matters; bank corporate practices; and bank investments.

SCP administers and enforces the federal securities laws affecting national banks with publicly traded securities, including the Securities Exchange Act of 1934 (Exchange Act), and the OCC's related disclosure regulations at 12 CFR 11. The division also enforces the OCC's securities offering disclosure rules (12 CFR 16), which govern national banks' public and private offers and sales of their securities, as well as national bank activities conducted under the Investment Company Act of 1940, the Investment Advisers Act of 1940, and the Trust Indenture Act of 1939.

SCP is responsible for the OCC's enforcement program to assure national bank compliance with federal securities laws applicable to bank municipal and government securities dealers, bank transfer agents, and other bank securities activities. The division is the OCC's liaison to federal and state securities regulatory agencies, including the Securities and Exchange Commission (SEC).

During 1994, SCP conducted investigations and brought enforcement actions against national banks and affiliated persons for violations of federal securities and banking laws. These enforcement initiatives included:

- Taking joint action with the SEC against Chase Manhattan Bank, N.A., for alleged violations of the Securities Exchange Act of 1934 and the SEC's implementing rules resulting from the bank's failure, as transfer agent, to properly destroy and report the loss or theft of cancelled

corporate debt certificates. To settle the action, the Bank agreed to a $100,000 CMP and to cease and desist from further violations of these provisions.

- Taking joint action with the SEC against Seattle First National Bank for alleged violations of the Securities Exchange Act of 1934 and SEC implementing rules resulting from the Bank's failure to account properly for customer presentations of securities transactions, to confirm delivery of customer securities to its transfer agent bank, and to notify the SEC or its designee of the loss of the customer securities presented for payment. To settle the action, the Bank agreed to a $75,000 CMP and to cease and desist from further violations of these provisions.

- Issuing Letters of Reprimand and Supervisory Letters against institution affiliated parties of national banks for various violations and unsafe and unsound practices.

As part of the OCC's effort to eliminate unnecessary regulation and make remaining regulations more user-friendly without diminishing their effectiveness, SCP staff have participated in a number of regulatory projects including: the revision of the OCC's disclosure rules for offers and sales of national bank securities at 12 CFR 16 and efforts to revise the OCC's investment securities regulations at 12 CFR 1. SCP also helped develop OCC and OTS joint final rules, published on December 28, 1994, allowing national banks, thrifts and savings associations to amend their respective risk-based capital standards to recognize the risk-reducing benefits of qualifying bilateral netting contracts.

In February 1994, the OCC joined the other federal banking agencies in adopting a uniform standard for banks on the sale of nondeposit investment products that supersedes Banking Circular 274. SCP assisted in developing these standards which establish important consumer protections and promote the safety and soundness of national banks engaged in selling nondeposit investment products. The OCC entered an agreement with the other federal banking agencies and NASD to cooperate in examinations of bank affiliated broker-dealers and to share information relating to these entities. SCP also responded to several Congressional inquiries relating to sales of mutual funds and other nondeposit investment products by national banks.

SCP participated in developing an opinion letter in April 1994, approving a proposal by First Union National Bank of North Carolina to acquire, through the establishment of three wholly-owned operating subsidiaries, the partnership interests of Lieber & Company and the assets and liabilities of Evergreen Management Corporation. The approval permitted the subsidiaries to engage in investment advisory, brokerage and administrative services to various clients. SCP participated in developing a similar opinion letter in May 1994 approving a proposal by Mellon Bank, N.A., to acquire, through the establishment of certain operating subsidiaries, most of the assets, operations, and activities of The Dreyfus Corporation, the sixth largest mutual fund company in the United States. The approval permitted the subsidiaries to engage primarily in investment advisory, brokerage and administrative services to the Dreyfus family of mutual funds. SCP developed a no objection letter to a proposal by Blackfeet National Bank, Browning, Montana, to market a new retirement CD.

In addition, SCP participated in OCC efforts to develop OCC guidance on derivatives activities. The OCC issued examiner guidance on Banking Circular 277 concerning legal, supervisory, and accounting risks that arise for national banks participating in the growing derivatives markets and appropriate policies and procedures respecting those risks. SCP also helped prepare agency comments on a number of proposed bills introduced in Congress to increase the regulation of national bank derivatives activities. SCP assisted in developing an opinion letter in September 1994, determining that national banks and their subsidiaries may enter into equity swaps and equity index swaps consistent with the National Bank Act and the Glass-Steagall Act. SCP assisted in preparing a September 1994 no-objection letter permitting a national bank to consolidate the futures commission merchant (FCM) activities of its wholly-owned operating subsidiary with the FCM activities of an affiliate holding a clearing membership with the Singapore International Monetary Exchange and futures brokerage with the Monetary Authority of Singapore.

In the securities, investments, and corporate practice areas, the division completed other opinion letters interpreting: the ability of national banks to invest more than 10 percent of a collective investment fund in a given mutual fund under a pass-through theory; the authority for national banks to sell to the public new issues of obligations representing interests in pools of mortgage and nonmortgage loans; and the ability of national banks to use surety bonds as collateral for trust funds deposited in a bank department while awaiting investment or distribution.

As in past years, the division reviewed offering circulars, abbreviated information statements, notices of non-public offerings, registration statements, annual

and special meeting proxy materials, periodic reports, and other reports filed with the OCC under the Comptroller's securities disclosure rules and merger application procedures. SCP also continued to contribute to the SEC's enforcement and disclosure review responsibilities by, for example, arranging for the SEC to review bank examination reports and workpapers, and consult with examiners, in SEC enforcement cases. SCP also provides the SEC with information on national bank subsidiaries of bank holding companies filing securities disclosures with the SEC. In 1994, the division also referred potential violations of securities laws under the SEC's jurisdiction to the SEC and subsequently assisted in the SEC investigations.

Quality Improvement

In 1994, the OCC continued to promote quality improvement through team efforts and integration with ongoing activities. The OCC introduced two new training programs directed at improving the abilities of managers to solve problems, make decisions and promote quality improvement in their organizations. Additionally, the Quality Improvement staff was actively involved in facilitating the development and implementation of the OCC's customer service standard on communicating with bankers during the examination process, supporting the review of OCC's organization structure to better position itself for the future, and promoting implementation of the National Performance Review recommendations for reinventing government.

Quality improvement teams continue to be active in all six districts and the Washington Office. The teams focused primarily on improving the quality and efficiency of bank supervision. A Banker-Examiner team from the Southeastern District presented its results at the Annual Federal Quality Conference in Washington, D.C. Additionally, several other projects have been replicated on a national or district-wide basis.

Management Improvement

Management Improvement is the OCC's liaison with the U.S. General Accounting Office (GAO) and the Department of the Treasury's Office of Inspector General (IG). The latter is the internal auditor for the OCC. Management Improvement facilitates audits and investigations and assures OCC responsiveness and followup to findings and recommendations of the GAO and the IG. Throughout 1994, there were approximately 25 audits in process. GAO issued reports covering financial derivatives, bank insider activities, international banking, the credit card industry, flood insurance, real estate evaluations, allowance methods and interstate banking. GAO made 13 recommendations to the OCC and additional recommendations to other regulators, to the Congress, and to the Financial Accounting Standards Board as a result of audit work conducted at OCC. The IG issued one audit report that found non-salary expenditures to be proper and reasonable, and adequately supported and controlled.

Management Improvement is also the focal point for OCC's participation in and compliance with a variety of governmentwide initiatives. It continues to work with the Quality Improvement Division and other departments within the OCC to implement recommendations made by the National Performance Review. During 1994, the first of a series of planned customer service standards was implemented in response to national banks' need for communication throughout the examination process. Efforts to reduce internal regulations by 50 percent continued.

Resource Management

During 1994, the Office of Resource Management increased efficiency and customer service in the management of office space and procurement. The office also coordinated an agencywide transition to the Federal Employees Health Benefits Program, implemented the crucial first phase of OCC's Rightsizing Program and promoted cultural diversity through new "family friendly workplace" initiatives.

Administrative Services

During 1994, the Administrative Services Division increased efficiency and customer service in managing office space and procurement. Reorganization of administrative functions in one sub-unit increased quality control and operating effectiveness.

Greater efficiency was realized through a new comprehensive district space utilization report that combines information from several databases. The report will serve as a benchmark for reducing future office space costs. The division enhanced customer service by expanding the nationwide bankcard program to purchases of under $2,500. New electronic aids and "user friendly" brochures were implemented to explain the procurement process.

The division was praised by the Treasury Department's Office of the Inspector General for its cost-effective hotel and employee relocation contracts. Savings gained through competition and negotiation of these and other contracts exceeded $4 million in 1994. Similarly, the division's reorganization of its administrative functions places strong emphasis on qulaity control of bank records and improved, cost-effective services. Efficiencies gained will help contain future operating costs.

Human Resources

In 1994, the Human Resources Division coordinated a successful, agencywide transition from the OCC Group

Health Program to the Federal Employees Health Benefits program, for current and retired employees. It crafted and carried out an early-out/buyout program, the crucial initial phase in the program to "rightsize" the OCC. The division also worked to promote cultural diversity through new "family friendly workplace" initiatives.

To promote cultural diversity, Human Resources developed operating guidelines for a new Family Friendly Leave Program, initiated experimental flexitime/flexiplace arrangements, and crafted an informative *Work/life Brochure*. The Family Friendly Leave Program permits employees to use their own sick leave to care for ailing children and other family members. Flexitime/flexiplace and similar "family friendly workplace" arrangements create a variety of employment alternatives that will make OCC positions appealing to a wide range of applicants.

Financial Services (Chief Financial Officer)

The OCC has worked to implement the Chief Financial Officer Act of 1990 by establishing the position of Chief Financial Officer (CFO) and a supporting organizational structure. The CFO is responsible for overseeing all financial activities relating to the OCC's programs and operations, reporting to the Senior Deputy Comptroller for Administration. The organizational structure allows the OCC to enhance its budgetary systems, integrated accounting systems, financial reporting and internal controls and to provide guidance to OCC management on financial issues. Financial Policy, Review and Analysis (FRPA), Financial Systems Management (FSM) and Financial Operations (FO) make up the department. Each of these units is headed by an assistant chief financial officer (ACFO).

Financial Policy, Review and Analysis

Financial Policy, Review and Analysis (FPRA) is responsible for:

- Monitoring, updating and reviewing OCC's revenues to ensure that they recover OCC's operating costs and are not burdensome to the national banking system;

- Formulating and executing OCC's operating plan and budget to ensure that resource usage reflects the OCC's priority objectives and the efficient allocation of funds;

- Reporting internally and externally on OCC's resource usage including the annual CFO Financial Statement,

- Developing revenue, accounting and expenditure (including travel) policies to ensure the efficient use of and effective internal controls on resources; and

- Conducting quality control reviews to ensure the effectiveness of internal controls and the adherence to internal and external financial policies.

During 1994, FPRA:

- Coordinated a review of revenue sources which resulted in implemented recommendations that reduced OCC's fees on the national banking system by more than $30 million;

- Developed and implemented a resource/staffing planning model utilizing task workday standards to determine nationwide resource needs on a consistent basis. This tool served as one of the underpinnings of OCC's rightsizing efforts.

- Provided guidance on accounting and expenditure issues to address new or updated accounting pronouncements;

- Continued development of the Financial Services Accounting Manual to ensure consistent, concise procedures in financial management; and,

- Conducted quality control reviews of financial operations in OCC's districts and in the Financial Services Department in Washington.

Financial Systems Management

Financial Systems Management (FSM) is responsible for the design, development, enhancement, and implementation of financial systems. In 1994, Financial System Management:

- In concert with OCC-wide initiatives, continued to position Financial Services to avail itself of technological advances in management information systems.

- Provided automated access to detailed budget information to OCC budget units.

- Provided systems and training support in the successful decentralization of accounts payable to the district offices.

- Served on the Financial Management Systems Advisory Committee, which was formed by the Treasury Department to review, evaluate, and formulate alternatives and recommendations for proposed financial management systems changes departmentwide.

- Researched, tested and acquired accounts receivable software to support tracking of civil money penalties.

- Continued to coordinate enhancements to financial systems and to assure satisfactory resolution of production problems.

Financial Operations

Financial Operations is responsible for the day-to-day operation of the accounting system, control of OCC's receipts and payments, cash reconciliation, financial reporting, and employee services. In 1994, Financial Operations:

- Completed the implementation of the accounts payable system in the district offices.

- Implemented new process for maintaining and tracking civil monitory penalties.

- Implemented new procedures to reconcile OCC's general ledger cash balance with the balance maintained by the Department of Treasury.

- Implemented better controls over unused airline tickets.

Capital Markets

The Capital Markets office is the focal point for the OCC's supervisory efforts relating to financial derivatives and emerging markets activities. Capital Markets staff formulate and help to implement supervisory policy through the issuance of formal and informal guidance and policy statements. Such issuances include OCC Bulletin 94-31, "Questions and Answers - Re: BC-277," Advisory Letter 94-2, "Purchases of Structured Notes," and revisions to the *Comptroller's Handbook*. Capital Markets staff also monitor and compile information with respect to national banks' compliance with Banking Circular 277, "Risk Management of Financial Derivatives."

Capital Markets staff participate periodically in bank examinations. Staff members also have helped to produce training materials and taught in examiner courses.

Equal Employment Programs

The Equal Employment Programs (EEP) Division covers the areas of equal employment opportunity (EEO), affirmative employment (AE), and complaints processing. In 1994, EEP staff established training programs on EEO and AE for OCC managers and other employees. This included presentations to the Policy Group, the District Management Group, and the incorporation of EEO and AE training in the new managers school. EEP staff also improved the analytic framework used to identify under-representation in the OCC and to communicate that information to OCC management. In addition, EEP staff have provided guidance to OCC managers on how to expand their job applicant pools to reach a broader cross-section of qualified applicants.

EEP staff participated on a Treasury Department sexual harassment task force, which identified major issues and steps that must be taken to address sexual harassment issues.

Diversity

In 1994, the Comptroller separated OCC's Diversity activities from the EEP Division and established the Office of Diversity, which is responsible for developing and implementing the OCC's national diversity initiative. The ultimate goal of this effort is to create an enhanced work environment that maximizes the contributions of all employees and fosters effective customer relations.

Major accomplishments for 1994 included issuing a national diversity policy statement; drafting the national diversity action plan and a report on current workplace issues; sponsoring an executive briefing for Washington and district senior management officials by Dr. R. Roosevelt Thomas, Jr. Staff also undertook public relations activities that include regular meetings with the Comptroller; introductory diversity briefings for Washington and district management officials; the introduction of the Diversity Joint Ventures Program, which involved a meeting with 12 federal agency diversity representatives; pilot management training; and newsletter articles.

Comptrollers of the Currency, 1863 to the present

No.	Name	Dates of tenure		State
1	McCulloch, Hugh	May 9, 1863	Mar. 8, 1865	Indiana
2	Clarke, Freeman	Mar. 21, 1865	July 24, 1866	New York
3	Hulburd, Hiland R.	Feb. 1, 1867	Apr. 3, 1872	Ohio
4	Knox, John Jay	Apr. 25, 1872	Apr. 30, 1884	Minnesota
5	Cannon, Henry W.	May 12, 1884	Mar. 1, 1886	Minnesota
6	Trenholm, William L.	Apr. 20, 1886	Apr. 30, 1889	South Carolina
7	Lacey, Edward S.	May 1, 1889	June 30, 1892	Michigan
8	Hepburn, A. Barton	Aug. 2, 1892	Apr. 25, 1893	New York
9	Eckels, James H.	Apr. 26, 1893	Dec. 31, 1897	Illinois
10	Dawes, Charles G.	Jan. 1, 1898	Sept. 30, 1901	Illinois
11	Ridgely, William Barret	Oct. 1, 1901	Mar. 28, 1908	Illinois
12	Murray, Lawrence O.	Apr. 27, 1908	Apr. 27, 1913	New York
13	Williams, John Skelton	Feb. 2, 1914	Mar. 2, 1921	Virginia
14	Crissinger, D.R.	Mar. 17, 1921	Mar. 30, 1923	Ohio
15	Dawes, Henry M.	May 1, 1923	Dec. 17, 1924	Illinois
16	McIntosh, Joseph W.	Dec. 20, 1924	Nov. 20, 1928	Illinois
17	Pole, John W.	Nov. 21, 1928	Sept. 20, 1932	Ohio
18	O'Conner, J.F.T.	May 11, 1933	Apr. 16, 1938	California
19	Delano, Preston	Oct. 24, 1938	Feb. 15, 1953	Massachusetts
20	Gidney, Ray M.	Apr. 16, 1953	Nov. 15, 1961	Ohio
21	Saxon, James J.	Nov. 16, 1961	Nov. 15, 1966	Illinois
22	Camp, William B.	Nov. 16, 1966	Mar. 23, 1973	Texas
23	Smith, James E.	July 5, 1973	July 31, 1976	South Dakota
24	Heimann, John G.	July 21, 1977	May 15, 1981	New York
25	Conover, C.T.	Dec. 16, 1981	May 4, 1985	California
26	Clarke, Robert L.	Dec. 2, 1985	Feb. 29, 1992	Texas
27	Ludwig, Eugene A.	Apr. 5, 1993	....	Pennsylvania

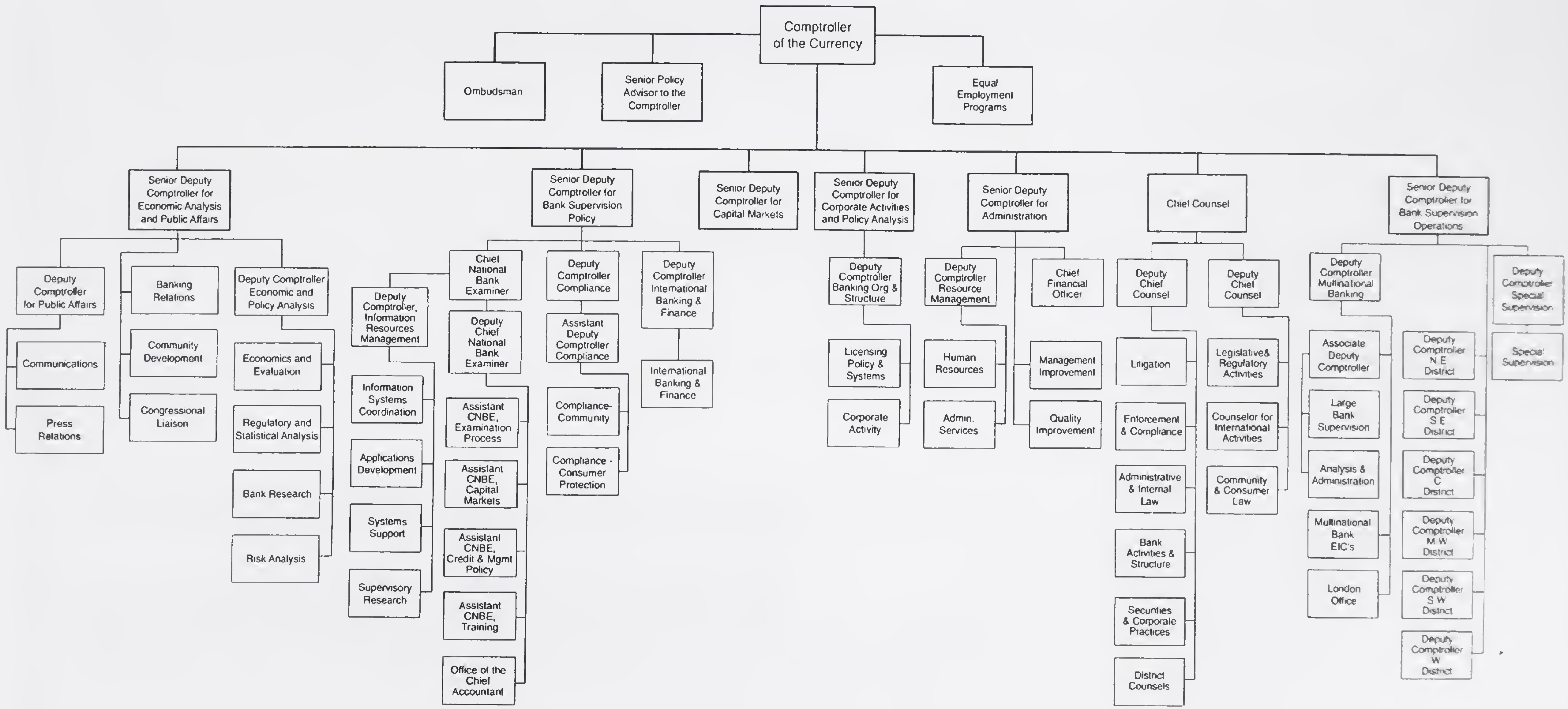
Senior Deputy and Deputy Comptrollers of the Currency, 1863 to the present

No.	Name	Dates of tenure				State
1	Howard, Samuel T.	May	9, 1863	Aug.	1, 1865	New York
2	Hulburd, Hiland R.	Aug.	1, 1865	Jan.	31, 1867	Ohio
3	Knox, John Jay	Mar.	12, 1867	Apr.	24, 1872	Minnesota
4	Langworthy, John S.	Aug.	8, 1872	Jan.	3, 1886	New York
5	Snyder, V.P.	Jan.	5, 1886	Jan.	3,1887	New York
6	Abrahams, J.D.	Jan.	27, 1887	May	25, 1890	Virginia
7	Nixon, R.M.	Aug.	11, 1890	Mar.	16, 1893	Indiana
8	Tucker, Oliver P.	Apr.	7, 1893	Mar.	11, 1896	Kentucky
9	Coffin, George M.	Mar.	12, 1896	Aug.	31, 1898	South Carolina
10	Murray, Lawrence O.	Sept.	1, 1898	June	29, 1899	New York
11	Kane, Thomas P.	June	29, 1899	Mar.	2, 1923	District of Columbia
12	Fowler, Willis J.	July	1, 1908	Feb.	14, 1927	Indiana
13	McIntosh, Joseph W.	May	21, 1923	Dec.	19, 1924	Illinois
14	Collins, Charles W.	July	1. 1923	June	30, 1927	Illinois
15	Steams, E.W.	Jan.	6, 1925	Nov.	30, 1928	Virginia
16	Awalt, F.G.	July	1, 1927	Feb.	15, 1936	Maryland
17	Gough, E.H.	July	6, 1927	Oct.	16, 1941	Indiana
18	Proctor, John L.	Dec.	1, 1928	Jan.	23, 1933	Washington
19	Lyons, Gibbs	Jan.	24, 1933	Jan.	15, 1938	Georgia
20	Prentiss, William, Jr.	Feb.	24, 1936	Jan.	15, 1938	Georgia
21	Diggs, Marshall R.	Jan.	16, 1938	Sept.	30, 1938	Texas
22	Oppegard, G.J.	Jan.	16, 1938	Sept.	30, 1938	California
23	Upham, C.B.	Oct.	1, 1938	Dec.	31, 1948	Iowa
24	Mulroney, A.J.	May	1, 1939	Aug.	31, 1941	Iowa
25	McCandless, R.B.	July	7, 1941	Mar.	1, 1951	Iowa
26	Sedlacek, L.H.	Sept.	1, 1941	Sept.	30, 1944	Nebraska
27	Robertson, J.L.	Oct.	1, 1944	Feb.	17, 1952	Nebraska
28	Hudspeth, J.W.	Jan.	1, 1949	Aug.	31, 1950	Texas
29	Jennings, L.A.	Sept.	1, 1950	May	16, 1960	New York
30	Taylor, W.M.	Mar.	1, 1951	Apr.	1, 1962	Virginia
31	Garwood, G.W.	Feb.	18, 1952	Dec.	31, 1962	Colorado
32	Fleming, Chapman C.	Sept.	15, 1959	Aug.	31, 1962	Ohio
33	Haggard, Holis S.	May	16, 1960	Aug.	3, 1962	Missouri
34	Camp, William B.	Apr.	2, 1962	Nov.	15, 1966	Texas
35	Redman, Clarence B.	Aug.	4, 1962	Oct.	26, 1963	Connecticut
36	Watson, Justin T.	Sept.	3, 1962	July	18, 1975	Ohio
37	Miller, Dean E.	Dec.	23, 1962	Oct.	22, 1990	Iowa
38	DeShazo, Thomas G.	Jan.	1, 1963	Mar.	3, 1978	Virginia
39	Egertson, R. Coleman	July	13, 1964	June	30, 1966	Iowa
40	Blanchard, Richard J.	Sept.	1, 1964	Sept.	26, 1975	Massachusetts
41	Park, Radcliffe	Sept.	1, 1964	June	1, 1967	Wisconsin
42	Faulstich, Albert J.	July	19, 1965	Oct.	26, 1974	Louisiana
43	Motter, David C.	July	1, 1966	Sept.	20, 1981	Ohio
44	Gwin, John D.	Feb.	21, 1967	Dec.	31, 1974	Mississippi
45	Howland, W.A., Jr.	July	5, 1973	Mar.	27, 1978	Georgia
46	Mullin, Robert A.	July	5, 1973	Sept.	8, 1978	Kansas
47	Ream, Joseph M.	Feb.	2, 1975	June	30, 1978	Pennsylvania
48	Bloom, Robert	Aug.	31, 1975	Feb.	28, 1978	New York
49	Chotard, Richard D.	Aug.	31, 1975	Nov.	25, 1977	Missouri
50	Hall, Charles B.	Aug.	31, 1975	Sept.	14, 1979	Pennsylvania
51	Jones, David H.	Aug.	31, 1975	Sept.	20, 1976	Texas
52	Murphy, C. Westbrook	Aug.	31, 1975	Dec.	30, 1977	Maryland
53	Selby, H. Joe	Aug.	31, 1975	Mar.	15, 1986	Texas
54	Homan, Paul W.	Mar.	27, 1978	Jan.	21, 1983	Nebraska
55	Keefe, James T.	Mar.	27, 1978	Sept.	18, 1981	Massachusetts
56	Muckenfuss, Cantwell F. III	Mar.	27, 1978	Oct.	1, 1981	Alabama
57	Wood, Billy C.	Nov	7, 1978	Jan.	16, 1988	Texas
58	Longbrake, William A.	Nov.	8, 1978	July	9, 1982	Wisconsin
59	Odom, Lewis G., Jr.	Mar.	21, 1979	Nov.	16, 1980	Alabama
60	Martin, William E.	May	22, 1979	Apr.	4, 1983	Texas
61	Barefoot, Jo Ann	July	13, 1979	Sept.	5, 1982	Connecticut
62	Downey, John	Aug.	10, 1980	Aug.	2, 1986	Massachusetts
63	Lord, Charles E.	Apr.	13, 1981	Mar.	31, 1982	Connecticut
64	Bench, Robert R	Mar.	21, 1982	Sept	25, 1987	Massachusetts
65	Klinzing, Robert R	Mar.	21, 1982	Aug.	21, 1983	Connecticut
66	Robertson, William L.	Mar.	21, 1982	Sept	26, 1986	Texas
67	Arnold, Doyle L	May	2, 1982	May	12, 1984	California
68	Weiss, Steven J	May	2, 1982		...	Pennsylvania
69	Stephens, Martha B	June	1, 1982	Jan	19, 1985	Georgia
70	Stirnweis, Craig M	Sept.	19, 1982	May	1, 1986	Idaho
71	Herrmann, Robert J	Jan	1, 1983			Illinois
72	Mancusi, Michael A	Jan	1, 1983	Feb	17, 1986	Maryland

Senior Deputy and Deputy Comptrollers of the Currency, 1863 to the present — continued

No.	Name	Dates of tenure		State
73	Marriott, Dean S.	Jan. 1, 1983	....	Missouri
74	Poole, Clifton A., Jr.	Jan. 1, 1983	Oct. 3, 1994	North Carolina
75	Taylor, Thomas W.	Jan. 1, 1983	Jan. 16, 1990	Ohio
76	Boland, James E., Jr.	Feb. 7, 1983	Feb. 15, 1985	Pennsylvania
77	Fisher, Jerry	Apr. 17, 1983	Apr. 4, 1992	Delaware
78	Patriarca, Michael	July 10, 1983	Aug. 15, 1986	California
79	Wilson, Karen J.	July 17, 1983	....	New Jersey
80	Winstead, Bobby B.	Mar. 18, 1984	June 11, 1991	Texas
81	Chew, David L.	May 2, 1984	Feb. 2, 1985	District of Columbia
82	Walter, Judith A.	Apr. 24, 1985	....	Indiana
83	Maguire, Francis E., Jr.	Jan. 9, 1986	....	Virginia
84	Kraft, Peter C.	July 20, 1986	Sept. 15, 1991	California
85	Klinzing, Robert R.	Aug. 11, 1986	....	Connecticut
86	Hechinger, Deborah S.	Aug. 31, 1986	Sept. 14, 1987	District of Columbia
87	Norton, Gary W.	Sept. 3, 1986	....	Missouri
88	Shepherd, J. Michael	Jan. 9, 1987	May 3, 1991	California
89	Rushton, Emory W.	Jan. 21, 1987	Sept. 20, 1989	South Carolina
90	Fiechter, Jonathan L.	Mar. 4, 1987	Oct. 30, 1987	Pennsylvania
91	Stolte, William J.	Mar. 11, 1987	Mar. 21, 1992	New Jersey
92	Clock, Edwin H.	Feb. 29, 1988	Jan. 3, 1990	California
93	Krause, Susan F.	Mar. 30, 1988	....	California
94	Coonley, Donald G.	June 29, 1988	....	Virginia
95	Blakely, Kevin M.	Oct. 12, 1988	Sept. 27, 1990	Illinois
96	Steinbrink, Stephen R.	Apr. 8, 1990		Nebraska
97	Lindhart, Ronald	Apr. 22, 1990	July 27, 1991	Florida
98	Hartzell, Jon K.	July 29, 1990	....	California
99	Cross, Leonora S.	Nov. 4, 1990	....	Utah
100	Finke, Fred D.	Nov. 4, 1990	Oct. 30, 1994	Nebraska
101	Kamihachi, James D.	Nov. 6, 1990	....	Washington
102	Barton, Jimmy F.	July 14, 1991	....	Texas
103	Cross, Stephen M.	July 28, 1991	....	Virginia
104	Guerrina, Allan B.	Apr. 19, 1992	....	Virginia
105	Powers, John R.	Aug. 9, 1992	July 2, 1994	Illinois
106	Alt, Konrad S.	Sept. 5, 1993	....	California
107	Harris, Douglas E.	May 20, 1994	....	New York
108	Sharpe, Ralph	Oct. 30, 1994	....	Virginia

Office of the Comptroller of the Currency



March 1995

Recent Corporate Decisions

On October 13, 1994, the OCC approved the relocation of the head office of Capital Bank, N.A., Washington, DC, to Rockville, Maryland and retention of all District of Columbia branches, including a branch at the former head office. This was the first approval of a relocation across state lines, with branch retention, that did not also involve a simultaneous merger.

On October 20, 1994, the OCC granted approval for National Westminster Bank USA, New York, New York, to relocate its head office to Jersey City, New Jersey, merge into its affiliate bank, National Westminster Bank New Jersey, and retain all the branches of both banks, including a branch at its former head office.

On October 31, 1994, the OCC granted approval for UMB First National Bank, Collinsville, Illinois, to relocate its head office to St. Louis, Missouri, merge with an affiliate bank, United Missouri Bank of St. Louis, St. Louis, Missouri, and retain all branches in both states, including a branch at its former head office.

In November 1994, First Fidelity Bancorporation received approval for two more interstate transactions. First, the OCC approved the relocation of the head office of First Fidelity's New York affiliate to Newark, New Jersey, the retention of its former head office as a branch, and its merger into the Salem, New Jersey affiliate. Second, the OCC approved the relocation of the head office of the New Jersey bank to Elkton, Maryland, the retention of the Salem site as a branch, and its merger with the Bank of Baltimore. As a result of these transactions, the resulting First Fidelity bank will be headquartered in Elkton, Maryland, with branches in the states of Pennsylvania, New York, New Jersey, and Maryland.

On November 30, 1994, the OCC granted approval for Sequoia National Bank, DC, Washington, DC, to relocate its head office to Bethesda, Maryland, merge with Sequoia National Bank, MD, Bethesda, Maryland, and retain all branches of both banks, including a branch at the former head office in the District of Columbia.

On November 30, 1994, the OCC approved an application for Bank of Boston Corporation, Boston, Massachusetts, to establish a cash management bank, entitled "Bank of Boston (Maine), N.A.," in South Portland, Maine. The charter is being established to retain the cash management business of Casco Northern Bank, N.A., after a majority of its assets and liabilities are sold to KeyCorp. The new bank will permit Bank of Boston Corporation to continue using the Federal Reserve of Boston's regional check processing center in Lewiston, Maine, to facilitate its controlled disbursement service for corporate customers.

On December 2, 1994, the OCC granted approval for NationsBank of South Carolina, N.A., Columbia, South Carolina, to merge into Rock Hill National Bank, Rock Hill, South Carolina, relocate the resulting head office across the state line to Charlotte, North Carolina, and merge with NationsBank of North Carolina. The resulting bank will be named NationsBank, N.A. (Carolinas), under the charter of the former Rock Hill National Bank. All branches, including the former head office in South Carolina, will be retained.

On December 9, 1994, PNC Bank, N.A., Pittsburgh, Pennsylvania, received conditional approval from the OCC to establish four operating subsidiaries to facilitate the acquisition of all the general and limited partnership interests of BlackRock Financial Management L.P., and its subsidiaries, BFM International L.P. and BFM Advisory L.P. The BlackRock Companies provide asset management and portfolio advisory services to fixed income investors and financial services companies, and provide fairness opinions and financial and strategic advisory services to corporations and financial institutions regarding mergers, acquisitions, and restructuring. This approval established a precedent by permitting a national bank to provide initial capital to closed-end funds it advises, provided that the funds invest exclusively in assets that may be held directly by a national bank. Conditions similar to those imposed on Mellon's acquisition of Dreyfus and First Union's acquisition of Lieber were imposed on PNC's acquisition.

On December 22, 1994, the OCC granted approval for First American National Bank, Nashville, Tennessee, to establish an operating subsidiary to act as an informational and payments interface between insurance underwriters and general insurance agencies and their individual agents. The subsidiary's services will include: providing information and consulting services to the insurance agencies in negotiating contracts; collecting commissions and making appropriate disbursements; providing periodic reports concerning sales; and disbursing supplies to individual agents.

On December 23, 1994, the OCC conditionally approved the charter application for Neighborhood Development Bank, N.A., San Diego, California. This was the first application to be approved for a nationally

chartered community development bank. Approval was also granted for a branch. A special condition to the charter approval requires the bank to state its community development focus in its articles of association and requires prior written approval from the OCC before the bank can amend its articles to shift its focus from community development. Equity investments are to be made by Wells Fargo and other national banks as permissible under 12 CFR 24 (Community Development Corporation and Project Investments).

On December 28, 1994, the OCC denied a request to consolidate a national bank with a thrift. The thrift's board of directors and management were proposed as the board and management of the resulting bank. This situation was of concern to the OCC, because two of the current directors and the former president of the thrift had orders to cease and desist outstanding against them. At issue were questionable actions taken by these three individuals in creating, funding, and operating an Employee Stock Ownership Plan for the thrift. The decision to deny was also based on the fact that the proposal would remove the thrift from the supervisory actions of its current regulators.

Special Supervision and Enforcement Activities

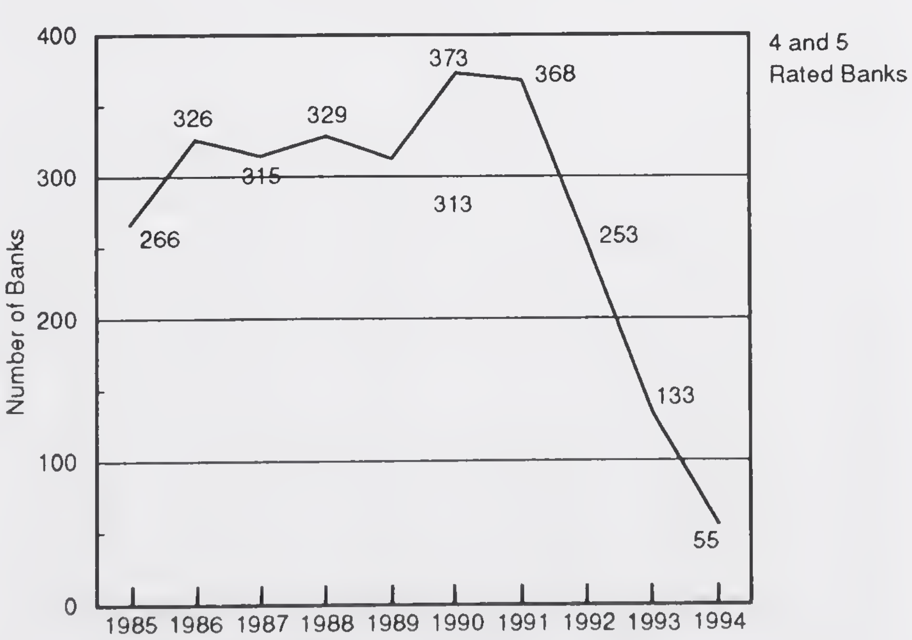
This section includes information on problem national banks, national bank failures, and enforcement actions. Data on problem banks and bank failures is provided by OCC's Special Supervision Division in Washington. Information on enforcement actions is provided by Special Supervision together with the Enforcement and Compliance Division of the Law Department. The latter is principally responsible for presenting and litigating administrative actions on the OCC's behalf against banks requiring special supervision.

Problem National Banks

Problem banks represented approximately 1.7 percent of the national bank population at year-end 1994. After reaching a high of 373 at the end of 1990, the number of problem national banks has significantly declined to 55 as of December 31, 1994. The decline is a direct result of the improvement in the condition of the banking system brought about by an extended period of low interest rates and other favorable economic conditions.

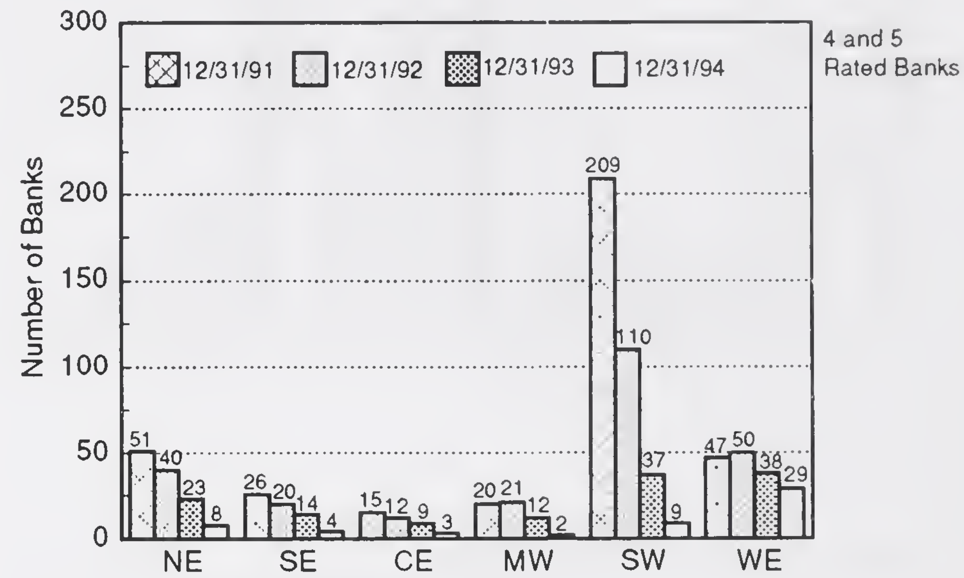
Although the number of problem banks has declined in all six districts, the Southwestern District has shown the most significant decline. The number of problem banks in the Southwest declined by over 96 percent from year-end 1991 to year-end 1994, from 209 to 9. For the second year in a row, the Western District has the largest number of problem banks, although that total declined from 39 at year-end 1993 to 29 at December 31, 1994.

Problem National Bank Historical Trend Line



Source Special Supervision

Problem Banks by District

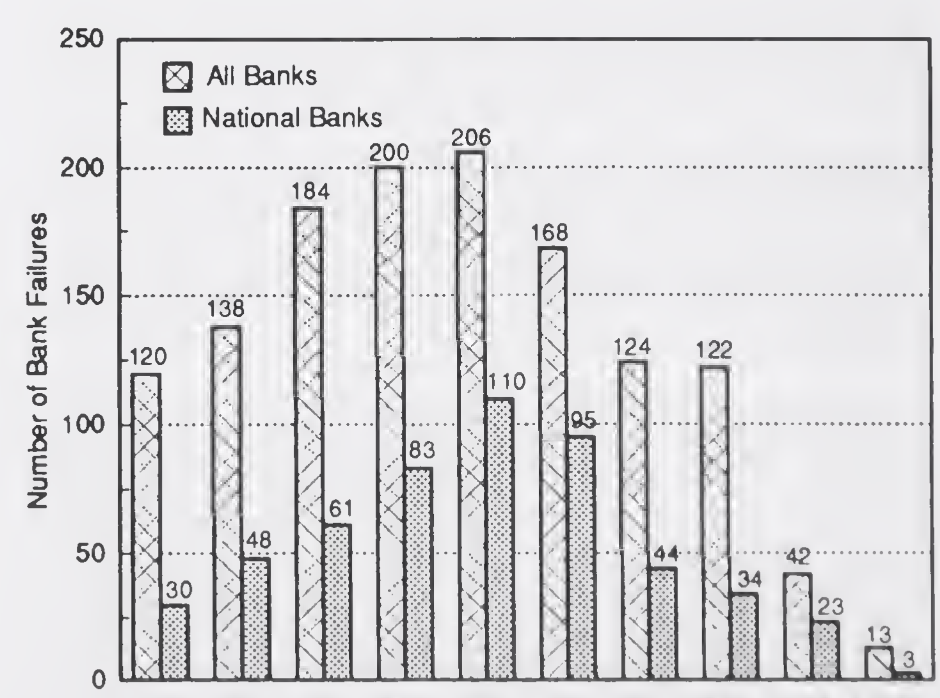


Source: Special Supervision

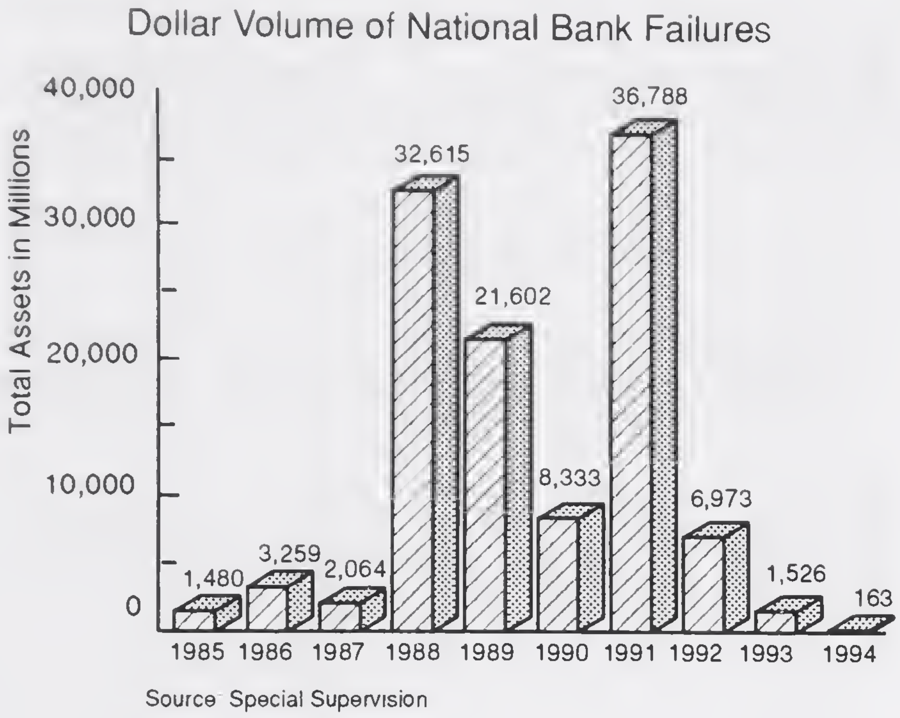
National Bank Failures

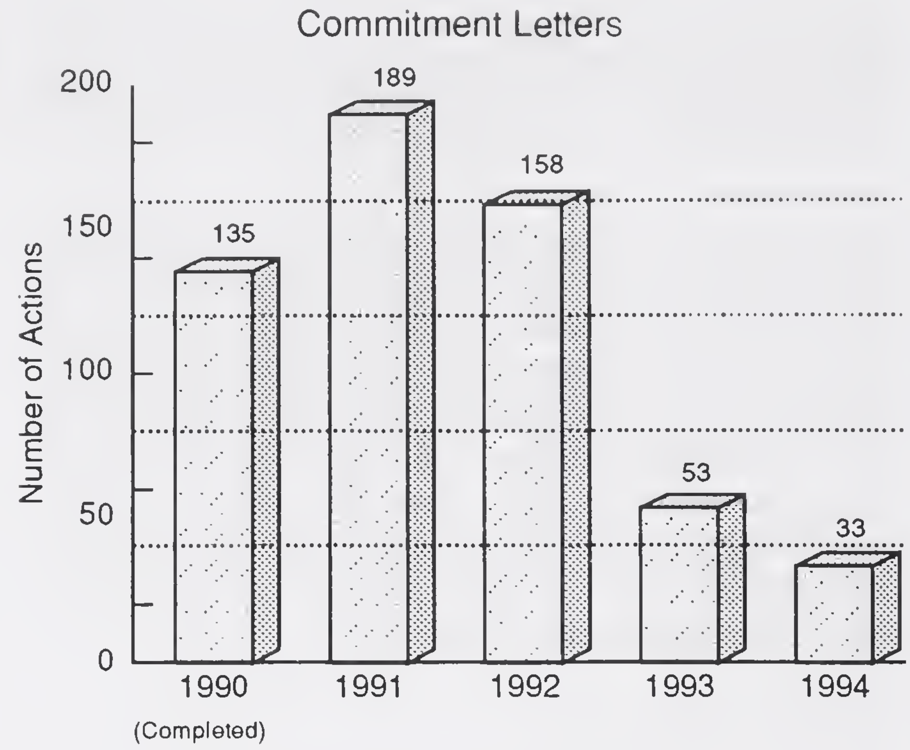
During 1994, there were 13 commercial bank failures of which 3 (23 percent) were national banks. Two national bank failures occurred in the Western District and one in the Midwestern District. This is the lowest number of failures since 1981, when two national banks failed. The dollar volume of failed national bank assets ($163 million) is the lowest since 1981 ($11 million). The average size of a failed national bank in 1994 was $54 million.

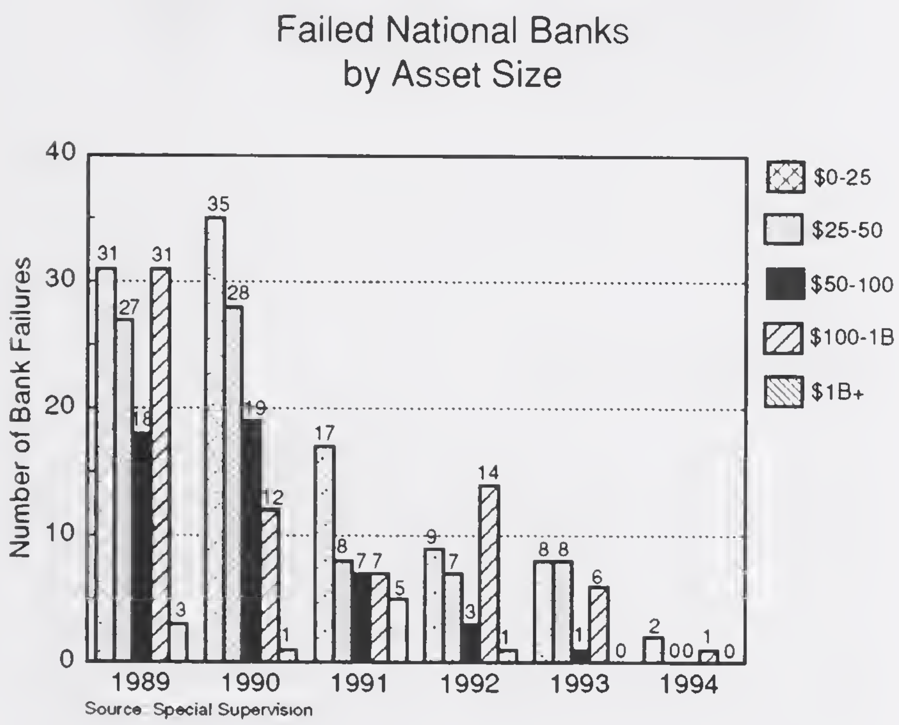
Bank Failures

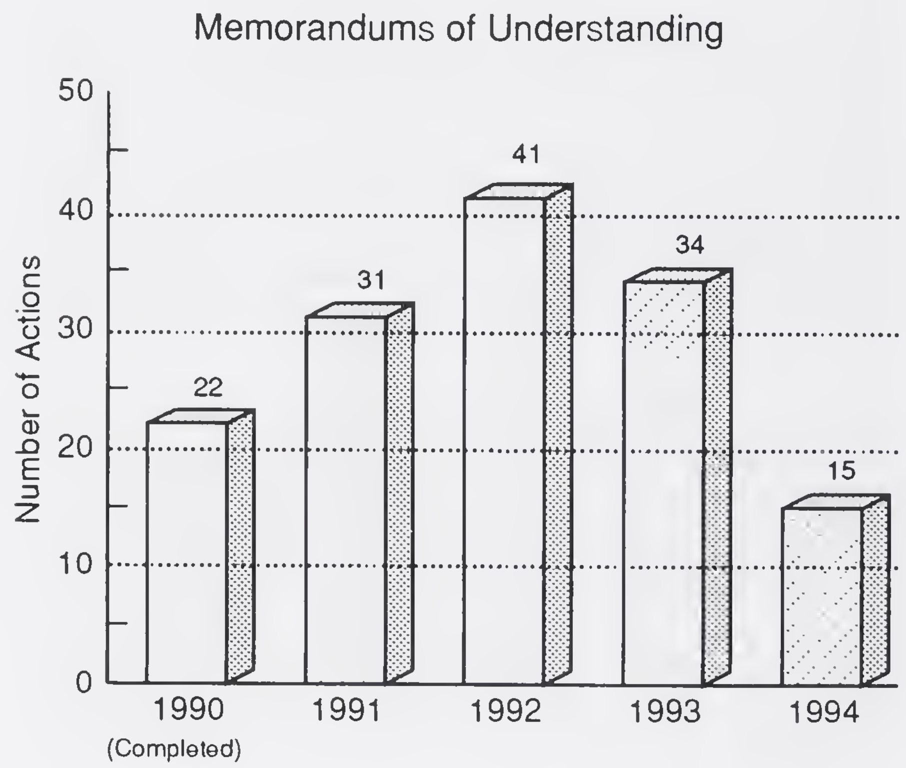


Source: Special Supervision









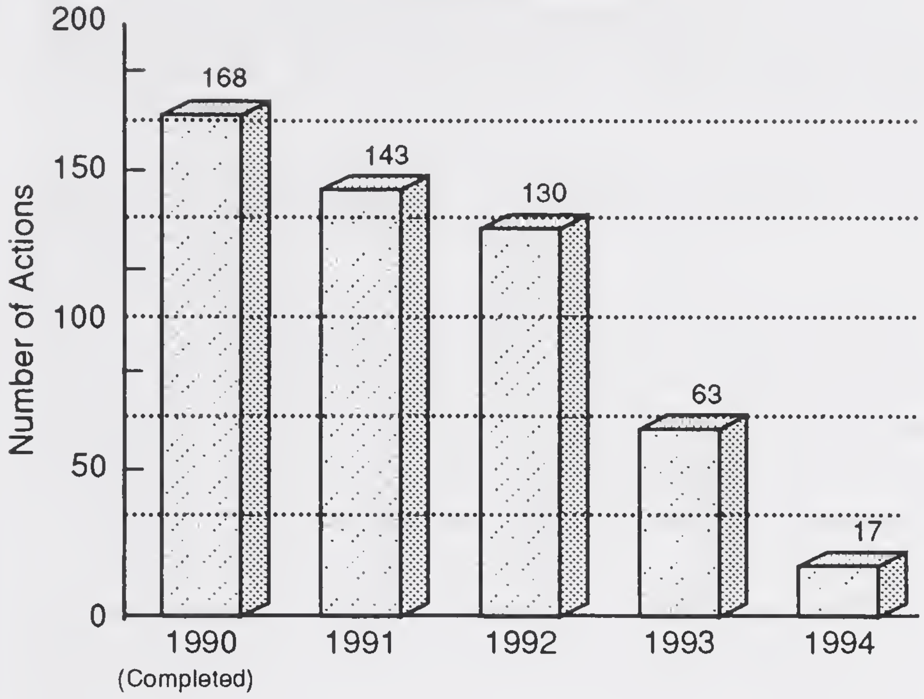
Enforcement Actions

The OCC has a number of remedies with which to carry out its supervisory responsibilities. When it identifies safety or soundness or compliance problems, these remedies range from informal advice and moral suasion to formal enforcement actions. These mechanisms are designed to achieve expeditious corrective and remedial action to return the bank to a safe and sound condition.

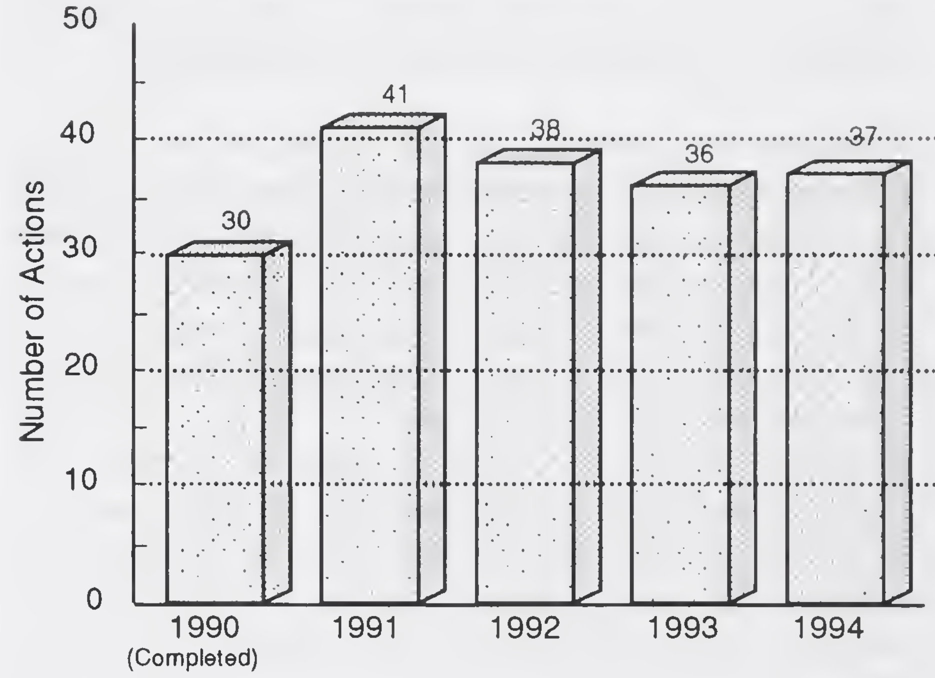
The OCC's informal enforcement actions include commitment letters and memoranda of understanding (MOUs). Informal actions are meant to handle less serious supervisory problems identified by the OCC in its supervision of national banks. Although informal actions are not legally enforceable, failure to honor informal actions will provide strong evidence of the need for the OCC to take formal action.

The most common types of formal actions issued by the OCC over the past several years have been formal agreements, cease and desist orders, civil money penalties (CMPs), and removals. Formal agreements are documents signed by a national bank's board of directors and the OCC in which specific corrective and remedial measures are enumerated as necessary to return the bank to a safe and sound condition. Cease and desist orders, sometimes known as consent orders, may be legally enforced. Like formal agreements, these orders contain a series of remedial measures in article form. CMPs are authorized for violations of laws, rules, regulations, formal written agreements, final orders, conditions imposed in writing, and under certain circumstances, unsafe or unsound banking practices or breaches of fiduciary duty. The OCC occasionally is compelled to use removal orders to remove individuals, who have violated the law or acted in an unsafe or unsound manner, from the banking industry.

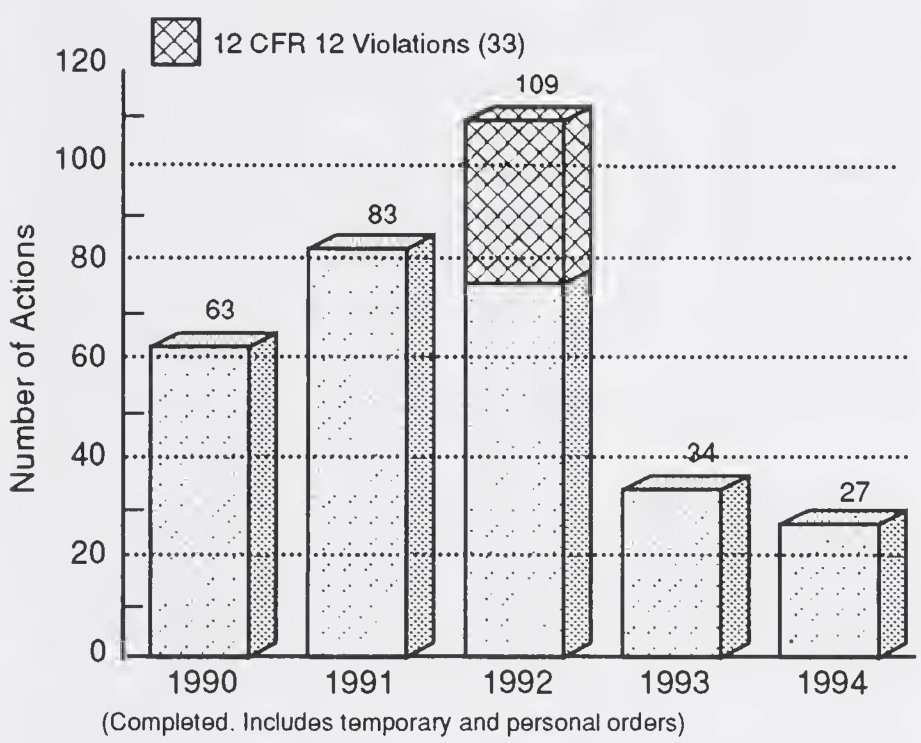
Formal Agreements



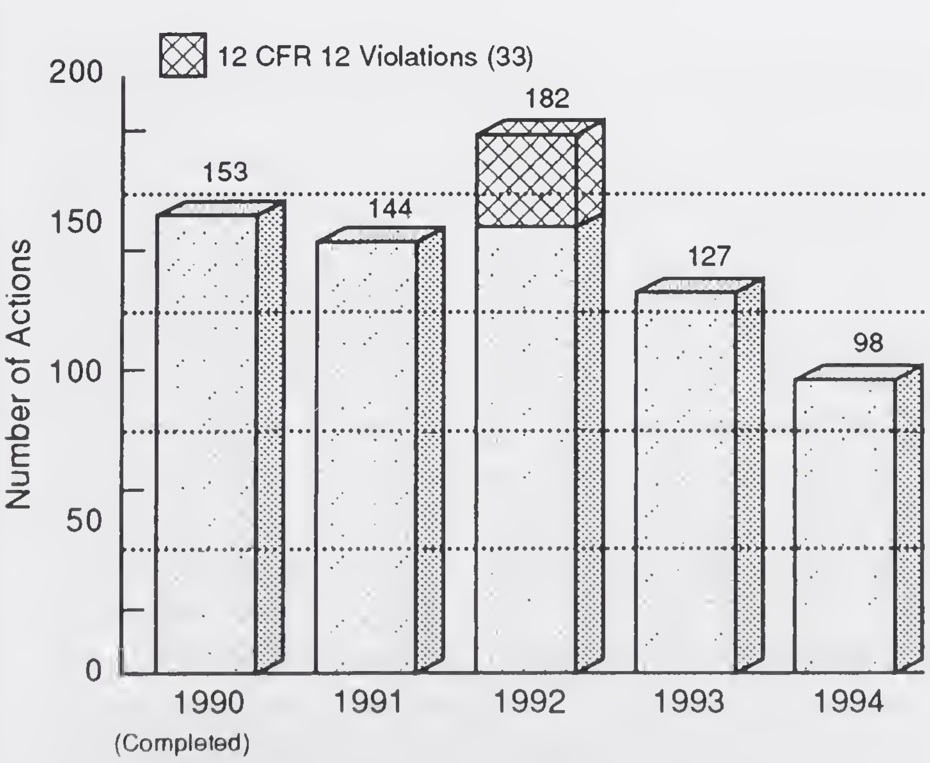
Removal Orders



Cease and Desist Orders



Civil Money Penalties



In addition, the OCC was given new authority under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), to take certain "prompt corrective action" (PCA) to resolve a bank's problems. Actions taken depend on a bank's level of capital. For instance, when a bank becomes undercapitalized it is required to submit a capital restoration plan (CRP). Depending on the severity of a bank's problems, a PCA directive can also be issued. The purpose of the PCA legislation is to resolve a bank's problems at the least possible long-term cost to the deposit insurance fund. During 1994, ten banks were required to submit a capital restoration plan, and two PCA directives were issued.

Recent Enforcement Cases

In July 1994, a former director of a national bank consented to be removed from banking. The director allegedly breached his fiduciary duty to the bank when he sold cars out-of-trust in connection with a floor plan loan that the bank had extended to him, causing the bank to lose in excess of $220,000.

On July 20, 1994, the OCC reached a settlement with all of the directors of a national bank. Each of the directors agreed to pay a civil money penalty (CMP) of $1,000. The OCC's actions against them were based on their alleged noncompliance with a formal agreement, violations of the laws governing brokered deposits and the filing of accurate call reports, and on various unsafe and unsound practices.

In August 1994, the chairman of the board of directors of a national bank agreed to pay a CMP of $15,000. The chairman allegedly participated in the seven month concealment of an enormous overdraft at the bank that

exceeded 60 percent of the bank's capital. The chairman also purportedly signed two false call reports as part of an effort to conceal this overdraft from regulators.

On August 11, 1994, the former chairman of the board and president of a national bank agreed to a removal from banking and to pay a CMP of $15,000. The CMP action involved allegations that the chairman made loans to a partnership that he controlled, without the authorization of the board, in excess of the limits on loans to executive officers found in 12 U.S.C. 375a and 12 CFR 31. The removal action was based upon allegations that the chairman caused the bank to pay excessive dividends to the bank's holding company, without OCC authorization, to enable the holding company to service its stock loan debt at another financial institution. The OCC also alleged that the chairman played a role in a violation of the cease and desist order to which the bank was already subject.

In September 1994, the former chairman of the board and chief executive officer of a national bank that failed agreed to a removal from banking and to pay a CMP of $30,000. He and an associate allegedly employed a round-robin lending scheme using funds held by the bank in its fiduciary capacity. Contrary to account instructions, some of the funds allegedly were diverted into the bank's operating account, to make the bank appear more profitable. Some of the funds allegedly were channelled into a speculative real estate venture that the bank was managing for other customers. In addition, some of the funds allegedly were deposited off-shore into entities controlled by the respondent who then allegedly transferred the funds to the bank's foreign holding company for payments on its loan.

In September 1994, the OCC suspended the president of a national bank, pursuant to 12 U.S.C. 1818(g). The president had been indicted for structuring of currency transactions for a bank customer, in violation of the Bank Secrecy Act. Structuring is punishable by up to 5 years imprisonment and/or a fine of up to $250,000.

On September 28, 1994, the chief executive officer and director of a bank consented to the payment of a $6,000 CMP. The OCC had charged him with a breach of fiduciary duty that allegedly arose when he purchased a parcel of land at a deeply discounted price from a land developer and long time loan customer of the bank and failed to disclose the purchase to the bank. The chief executive officer had been responsible for servicing and monitoring the developer's account and the OCC also discovered numerous discrepancies and irregularities in the bank's lending relationship with the developer.

In November 1994, three former directors of a national bank agreed to settle CMP and prohibition actions. The former chairman of the board paid a CMP of $20,000, and the other directors paid $2,000 and $3,000. The OCC had alleged that the bank had unsafely and unsoundly invested an excessive amount, 50 percent of its assets and seven times its capital, in two mutual funds. The bank suffered a loss of approximately $1 million on the funds. In addition, the OCC alleged that the bank had repeatedly filed inaccurate call reports, in violation of 12 U.S.C. 161. The OCC also alleged that the bank had illegally accepted brokered deposits because it paid significantly higher interest rates than other area institutions without a waiver from the FDIC, and was only "adequately capitalized."

In December 1994, Michael A. Jacobs consented to a removal from banking, to pay a CMP of $100,000 and to repay $4,482,500 in loans to several banks. This settlement resulted from a joint investigation conducted by the Northeastern District Office of the OCC and the Federal Reserve Bank of New York. In addition to other alleged violations of banking law and unsafe and unsound practices, Jacobs allegedly orchestrated deceptive loan and accounting transactions to enhance the financial condition of a holding company of which he was chairman. He allegedly did so to ensure regulatory approval of an application by the Downsville Bank, Downsville, New York, one of the holding company's banks of which he was also chairman, to acquire branches of a failed bank.

In December 1994, the OCC issued an order preventing an individual from engaging in the business of banking through the issuance of a personal cease and desist order. The individual allegedly brokered millions of dollars in high-risk auto loans to the bank. The broker brought the loans to the bank, which accepted them without proper review. The bank ultimately lost over $600,000 on automobile loans identified with this broker.

During the second half of 1994, the OCC settled CMP actions against the president and three other directors of a national bank based upon alleged violations of law and reckless unsafe and unsound practices relating to the bank's automobile insurance premium finance program. The president agreed to pay a CMP of $3,000. Two of the directors paid CMPs of $5,000, while a third paid a CMP of $1,000. Most significantly, the OCC alleged that the finance company originating the loans was managed by the bank's controlling owner who had previously been prohibited from participating in the bank's affairs. The OCC also alleged that the bank's 1993 call report failed to disclose significant losses relating to the loan program. Based upon these charges, the former chairman of the board of directors agreed to a removal from the banking industry.

Appeals Process

Case 1: Appeal of 12 U.S.C. 161 Violation

A bank appealed to the ombudsman a violation of 12 U.S.C. 161 cited in a letter from the bank's supervisory office. This letter was written following a meeting that the bank had initiated to disclose the reasoning behind the bank's refiling of its December 31, 1993 call report. The cited violation was based upon a materially inaccurate call report for the quarter ended December 31, 1993, resulting from an inadequate ALLL balance. The letter also stated that the violation was of concern because the bank had received previous OCC reprimands and penalties for similar violations. These reprimands and penalties were associated with a similar violation in 1992 resulting from an inadequate method of determining ALLL adequacy and noncompliance with Banking Circular 201. The bank's correction of those deficiencies was confirmed by OCC examiners during 1993.

Background

The bank felt this appeal was necessary for the following three reasons.

(1) Management believes the ALLL was adequate as originally reported as of December 31, 1993. The bank refiled its call reports to comply with its internal ALLL policies and because of the previous violation of 12 U.S.C. 161 with associated civil money penalties and reprimands. The bank did not refile because it had determined the ALLL was inadequate.

This dispute over ALLL adequacy centers around a certain large loan relationship and a proviso in the bank's ALLL policy requiring a minimum ALLL balance equal to 50 percent of nonaccrual loans. The bank claimed in its appeal letter that, through an oversight, the senior loan officer had inadvertently failed to include the large relationship in the calculation of the required minimum ALLL balance. When the bank's external accountant discovered the omission, the bank immediately corrected the problem by first visiting the OCC supervisory office to explain the matter and then refiling the December 31, 1993 call report. Documentation obtained through our review of this appeal demonstrates that the minimum coverage calculation for nonaccrual loans was included in the December 31, 1993 ALLL analysis and the board made a conscious decision not to make the associated ALLL adjustment. Notwithstanding this discrepancy, the question remains whether a violation actually occurred.

(2) The bank is concerned about the threat of future civil money penalties.

The bank claims that the examiner-in-charge of its next examination told bank officials he did not believe the cited violation would be significant and was not going to refer it for civil money penalties. The error should have been caught, but the bank immediately corrected the situation upon discovery. Despite this assurance, the bank felt that the circumstances warranted an appeal to a neutral third party to assess the seriousness of the alleged violation.

(3) The bank perceives OCC hostility stemming from an alleged ethical conflict concerning a former OCC employee.

The bank is convinced that this situation created an unfavorable relationship with the supervisory office. The board of directors is concerned that every violation of any kind will be vigorously pursued because of the bank's less than friendly relationship with the supervisory office. The bank believes that all possible violations of law, no matter how minor, have now become major issues, causing great anxiety among the management and directors of the bank.

Discussion

12 U.S.C. 161(a) requires national banks to file accurate reports of condition and income to the Comptroller of the Currency in accordance with the Federal Deposit Insurance Act. Each report of condition shall contain a declaration by the president, a vice president, the cashier, or by any other officer designated by the board of directors of the bank to make such declaration, that the report is true and correct.

The ALLL must be maintained at a level that is adequate to absorb all estimated inherent losses in the bank's loan and lease portfolio. The *Instructions for Preparation of the Consolidated Reports of Condition and Income* state the following: "At the end of each quarter, or more frequently if warranted, the management of each bank must evaluate, subject to examiner review, the collectibility of the loan and lease financing receivable portfolios, including any accrued and unpaid interest, and make appropriate entries to bring the balance of the allowance for loan and lease losses

(allowance) on the balance sheet to a level adequate to absorb anticipated losses. Management must maintain reasonable records in support of their evaluations and entries."

SFAS No. 5 is the primary, authoritative accounting document concerning the accrual of the ALLL. It defines an inherent loss (loss contingency) as an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. The conditions associated with most loans involve some degree of uncertainty about collectibility. However, a provision to the ALLL for an inherent loss (loss contingency) associated with loans should be made only if both of the following conditions of SFAS No. 5 are met:

- Information available as of the evaluation date indicates that it is probable that the value of the loan has been impaired. (One or more future events must be likely to occur and confirm the fact of the loss.)

and

- The amount of loss can be reasonably estimated. (Under Financial Accounting Standards Board Interpretation No. 14, the ability to estimate a range of loss is sufficient to satisfy this condition.)

The timing of certain events in the sequence of this case is central to the question as to whether a violation of law occurred. The bank placed a portion of the large relationship on nonaccrual in November 1993, with the balance placed on nonaccrual in December. At year end 1993, the entire relationship was internally classified substandard/nonaccrual. The bank was involved in active negotiations with the managing partners of the project. Based on the strong financial capacity of the guarantors, the bank did not expect any loss on this relationship. The bank filed its December 31, 1993 call report on January 25, 1994. The bank's external CPA confirmed that the ALLL balance was adequate based on the information available to the bank at the time.

However, the large relationship deteriorated during the month of February, in the midst of the external CPA's annual audit of the bank. The bank's president decided to initiate litigation against the guarantors and charged-off the loans on February 28, 1994. At that point, the CPA became uncomfortable with the ALLL balance. Since his FYE audit was still in progress, he recommended an additional provision adjustment to the December 31, 1993 ALLL balance based upon his own analysis. To make the bank's RAP book consistent with its GAAP book, the CPA's additional provision adjustment was made retroactive and the bank refiled its initial call reports. The charge-off and the accompanying provision of equal amount were both treated as first quarter events.

Conclusion

The Ombudsman's Office decided that there is not conclusive evidence that a violation of 12 U.S.C. 161 occurred. The fact that the bank did not comply with its policy for calculating the allowance does not, in and of itself, constitute a violation of law. It is extremely difficult to pinpoint the exact date a loss should have been recognized in prior periods. We found no justification that the large relationship was improperly graded at December 31, 1993, nor were we able to corroborate that the ALLL balance was inadequate as originally filed in the bank's initial December 31, 1993 call report.

Further, the tone of the supervisory office's letter to the bank was inappropriate. The bank immediately brought the alleged violation to OCC's attention, made appropriate adjusting entries, and refiled the affected call reports. The supervisory office agreed to take the following actions:

- Reiterate to the bank that OCC acknowledges the bank's forthrightness in bringing this matter to OCC's attention upon discovery by the bank. No violation of law will be cited and no civil money penalties or other administrative action contemplated.

- Send a revised version of the supervisory office's letter to the bank eliminating any inappropriate language. References to past reprimands and penalties will be deleted.

- Arrange a meeting between bank management and the field office director to discuss banker-regulator relations.

The alleged ethical conflict involving the former OCC employee was referred to the OCC's ethics counsel. Subsequently, this matter was referred to the Department of the Treasury Office of the Inspector General for appropriate investigation.

Case 2: Appeal of Requirement on Physical Separation of Loan Underwriting and Credit Origination

Background

A bank requested that the Ombudsman's Office reconsider OCC's requirement that the mortgage loan underwriters of the bank's mortgage company subsidiary be located in separate buildings from the credit origination function. At the time of the bank's acquisition of the mortgage company, the bank agreed to separate the functions, pursuant to OCC interpretations of the branching rules, in order to receive a speedy approval of the application for the acquisition. The bank's appeal is motivated by the competitive disadvantage these restrictions create. Physical separation of underwriters causes the mortgage company to incur additional expense, creates employee morale issues, and is contrary to industry practice.

Discussion

Under the McFadden Act, any bank office that performs certain "core" banking activities, including accepting deposits, paying checks, and lending money, is a branch and thus subject to locational restrictions (12 U.S.C. 36(f), 12 U.S.C. 81). Interpretative Ruling 7.7380 permits national banks to originate loans at locations other than the main office or a branch office of the bank *provided* that the loans are approved and made at the main office or a branch office of the bank or at an office of the subsidiary located on the premises of, or contiguous to, the main office or branch office of the bank.

A letter signed by Eric Thompson, director of OCC's Bank Activities and Structure Division, dated October 13, 1994, states that it is permissible to maintain loan approval offices in the same buildings as loan production offices (LPO) of a mortgage company subsidiary of a national bank. The locations in question are not branches of the bank. The loan approval office would be located on a different floor than the LPO; be in an area not identified by any mortgage company signs; have a different entrance to the building than the LPO; be in an area that is not accessible to the public, including customers of the mortgage company; and have a staff that is separate and independent from the loan origination personnel. In no case will loan proceeds be disbursed at either an LPO or a loan approval office.

Similar conclusions are communicated in a letter signed by Frank Maguire, Senior Deputy Comptroller for Corporate Activities and Policy Analysis, dated October 12, 1994. This letter approves the acquisition of a mortgage company by a national bank subject to certain conditions. In this case, credit underwriting offices are located in the same buildings as LPOs, but are either located on different floors of a multistory building, or in separate areas on the same floor. There is no public access to the underwriting offices and no customers visit these offices. Each underwriting office will be staffed separately from the LPO, and underwriting personnel will operate independently of the LPO.

Both letters conclude that, under the given circumstances, locations where LPOs and credit underwriting offices are maintained in separate areas of the same building should not be considered branches for purposes of 12 U.S.C. 36. A nonpublic office that only performs credit underwriting functions is not a branch and situating it in the same building as an LPO does not change the nonbranch character of either office.

Conclusion

The Ombudsman's Office decided that the interpretive letters provide the mortgage company an avenue to locate underwriting and origination functions in the same building. Consistent with the facts and circumstances contained in these letters, the mortgage company subsidiary no longer needs to maintain the mortgage loan underwriters in separate buildings from the credit origination function.

Case 3: Appeal of Conditions for Approval of Licensing Application

Background

A bank appealed two conditions imposed in OCC's approval of a corporate licensing application. The bank sought approval for a proposed reorganization by the bank's parent company (BHC) of its credit card business among two of its subsidiary banks ("Bank A" and "Bank B"). The reorganization would be effected, in part, through a sale of Bank A's credit card portfolio to Bank B, which is engaged exclusively in credit card and related activities.

The transaction would be structured as follows. Bank A would sell to Bank B its credit card business, including both the existing receivables and billed accounts as well as certain limited unsecured lines of credit and related fixtures, equipment, and personal property. The transaction would exclude any receivables that are low-quality assets. Simultaneous with the transfer to Bank B of its credit card business, Bank A would make a combined dividend to and stock repurchase from and distribution to the BHC. The dividend component would be sized to equal income realized by Bank A through

reversal of card related loan loss reserves less write-down of low-quality assets to current market value. The dividend would be paid by Bank A in cash and the stock repurchase and distribution paid first in-kind with low-quality assets and the remainder in cash. The BHC estimates that the current market value of the low-quality assets equals approximately 50 percent of the outstanding balances. The BHC would contribute as common equity capital to Bank B all dividend and stock repurchase proceeds received from Bank A. The BHC would also purchase a certain amount of tier 2 capital-qualifying subordinated debt from Bank B.

OCC placed the following conditions on the proposed transaction:

- The portion of the transfer to be structured as a direct sale from Bank A to Bank B must be accounted for at fair value.

- The accounting for the Bank A common stock repurchase must include a proportional deduction from undivided profits of any amount paid in excess of the issue price of the shares retired.

Discussion

The *Instructions for the Preparation of the Consolidated Reports of Condition and Income* specifically prohibit accounting for such transactions at cost. Under the glossary entry for property dividends, the instructions state that "the transfer of securities of other companies, real property, or any other asset owned by the reporting bank to a stockholder or related party is to be recorded at the fair value of the asset on the declaration date of the dividend." Also, Topic 11-A of the *Bank Accounting Advisory Series* states that "the transfer of assets between a bank and a related party should be accounted for on the basis of the asset's fair value." The agencies base this long-standing position on the necessity of maintaining consistency of accounting policy regarding transactions involving affiliated and nonaffiliated institutions. They believe that otherwise the reliability of call reports would be diminished when comparing an independent bank to one owned by a holding company.

The accounting for retirement of treasury stock has varied treatment under GAAP. OCC has generally required use of the pro rata approach (via undivided profits) rather than deducting the entire amount from capital surplus. The intent of this approach is that capital surplus should not be reduced by more than the amount applicable to shares retired. Accounting Principles Board Opinion No. 6, which governs the accounting for such transactions, designated the method required by OCC as an acceptable method. However, GAAP would allow other methods. Accounting Research Bulletin No. 43, *Restatement and Revision of Accounting Research Bulletins*, states in Paragraphs 7 and 8 of Chapter 1B that there is "general agreement that the difference between the purchase price and the stated value of a corporation's common stock purchased and retired should be reflected in capital surplus. . . while the net asset value of the shares of common stock outstanding in the hands of the public may be increased or decreased by such purchase and retirement, such transactions relate to the capital of the corporation and do not give rise to corporate profits or losses." The *Current Text of Accounting Standards* published by the Financial Accounting Standards Board states the following in Section C23, Paragraph 102: "If an enterprise's [capital] stock is retired, or purchased for constructive retirement (with or without an intention to retire the stock formally in accordance with applicable laws): . . . b. An excess of par or stated value over purchase price shall be credited to additional paid-in capital. [APB6, P12a]."

Conclusion

The bank's appeal was granted. The ombudsman decided that the most practical approach, looking at the substance and intent of the bank's proposal, was to grant an exception to OCC's long-standing regulatory accounting requirement that asset transfers among affiliated institutions be accounted for at fair value. The bank may disregard the conditions imposed by the supervisory office. The direct sale of credit card assets from Bank A to Bank B may be accounted for at the GAAP alternative of lower of market value or book value. Further, the Bank A common stock repurchase need not include a proportional deduction from undivided profits.

This exception is exclusively applicable to the unique facts and circumstances associated with this transaction. Nothing in this decision undermines or compromises OCC's consistent preference for fair value accounting in the transfer of assets between legal entities. The Ombudsman's Office fundamentally agrees that it is inappropriate to allow appreciated assets to be transferred out of a bank at less than fair value. Such transactions may obscure the true value of transferred assets and allow banks to shift assets in order to distort the earnings of affiliates. Also, they could be used to circumvent regulatory dividend rules when an institution is otherwise unable to pay dividends.

Central to this decision is the fact that, in substance, it is a one-time reorganization of the BHC's credit card business to achieve operational efficiencies. The bank would not initiate this transaction with an unrelated

party because it is not "selling assets," per se. The ombudsman also recognizes that the affiliate banks in the transaction could have reached similar regulatory capital results had the transaction been accounted for at fair value. The transaction is consistent with generally accepted accounting principles. There is no concern that this transaction involves a dissipation of assets or capital. Neither is it viewed as an attempt to circumvent any legal requirements such as dividend limitations. There are no other safety and soundness concerns associated with the transaction.

Likewise, because the accounting for common stock repurchases is not clear under GAAP, the ombudsman has no supervisory concerns regarding the accounting methodology proposed by the bank.

Case 4: Appeal of Required Accounting Treatment for Sale of Residential Mortgages and Servicing

Background

A bank appealed to the Ombudsman's Office for reconsideration of the accounting treatment required by OCC regarding the sale of residential mortgages and servicing. The bank originates first mortgage loans, most of which are FHA-insured or VA-guaranteed, and sells them without recourse along with the servicing rights to large institutional buyers who package and sell them in the secondary market. The buyers of the servicing rights require the bank to bear the servicing costs of defaulted mortgages which become delinquent by more than 60 days during the first six months after origination. The bank must either reimburse the servicing entity for its foreclosure costs, or repurchase the loan from the servicing entity and initiate foreclosure procedures itself.

First, the bank claims OCC is requiring of it a more stringent application than that afforded other national banks on this issue. Second, the bank believes it is illogical for OCC to allow sales treatment for mortgages sold when the servicing rights are retained but require financing treatment for mortgages sold when the servicing rights are sold. The bank maintains that it has no more recourse exposure by selling the servicing rights than it would if it retained them. Finally, the bank believes OCC policy favors the larger institutions that can afford to retain large servicing portfolios.

The bank would like OCC to allow sales rather than financing treatment for these loans. The bank would establish a reserve account, calculated in a manner satisfactory to OCC, that would account for and offset all expected future costs and losses relating to any recourse risks retained in the sale of these loans.

Discussion

Regulatory policy generally requires that the sale of assets with recourse be accounted for as borrowings during the period of time the recourse provisions apply. Capital is held against the entire amount of loans involved in the arrangement.

The glossary entry for sales of assets in the *Instructions for the Preparation of the Consolidated Report of Condition and Income* states the general rule that transfers of assets are reported as sales by the selling institution only if the transferring institution retains no risk of loss from the assets transferred resulting from any cause and has no obligation to any party for the payment of principal or interest on the asset transferred for any cause. For any given transfer, the determination of whether risk is retained by the transferring institution is to be based upon the substance of the transfer agreement.

Footnote 14 in Appendix A of 12 CFR 3 states that, for risk-based capital purposes, the definition of the sale of assets with recourse, including one- to four-family residential mortgages, is generally the same as the definition contained in the call report instructions. Capital is held against the entire amount of assets sold in transactions in which the bank retains risk in a manner constituting recourse under the call report instructions, but which are not reported on the bank's statement of condition.

Banks may service loans for investors with or without recourse. Government National Mortgage Association (GNMA) servicing is generally without contractual recourse. Under the Veterans Administration (VA) "no bid" program, however, the servicer has exposure for principal loss in the event of mortgagor default, and exposure for interest loss on FHA loans. This exposure does not preclude sales treatment under regulatory accounting principles. GNMA, Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) servicers all incur nonreimbursable expenses as part of the collection process for defaulted mortgages. These costs are considered normal requirements incidental to servicing mortgages and are not considered recourse.

The FNMA program provides two options for servicers: "regular," or "special." For regular servicing, the bank retains all default risk of loss. There is no recourse associated with special servicing other than the normal representations and warranties. FHLMC servicing options are similar to those under FNMA.

The exposure associated with GNMA servicing is not subjected to a capital charge. Therefore, when a bank sells FHA or VA mortgages into GNMA pools and retains the servicing rights, the transaction is granted sales treatment and no capital is required against the mortgages sold. Mortgages sold under FNMA and FHLMC nonrecourse programs are also granted sales treatment and no capital is required against the mortgages sold.

Conclusion

The ombudsman concurs with the bank's concern that regulatory accounting policy is inconsistent for mortgage sales where servicing rights are retained versus sold. Accordingly, the Ombudsman's Office granted sales treatment for the portion of the sales related to mortgage loans on which the bank's exposure is limited to reimbursement of the servicer's foreclosure costs. Further, consistent with the treatment afforded banks that package and sell loans into GNMA pools, under FNMA's "special" programs, and FHLMC nonrecourse programs and retain the servicing, the bank need not hold capital against mortgages which qualify for sales treatment. In order to qualify for sales treatment, the bank must not take back or substitute any loans. Financing treatment is required for all loans sold under recourse arrangements with the exception of FNMA and FHLMC programs. FNMA and FHLMC loans sold under recourse programs must be included as assets when determining risk-based capital.

The mortgage loans and the servicing will be accounted for as separate components. The bank must continue to defer recognition of the sale of the servicing until the recourse period expires. Accordingly, the sales proceeds must be allocated between the sale of the mortgages and the sale of the servicing. All income related to the sale of the servicing, including the servicing release fees, must be deferred until the recourse period expires. Should the expected loss exposure exceed the amount of the deferred income, a reserve must be established through a charge to operations.

An interagency working group, operating under the auspices of the Federal Financial Institutions Examination Council, is currently studying the entire recourse issue in great detail. OCC policies in this area may be revised as a result of this interagency effort.

Case 5: Appeal of Report of Examination

A formal appeal was received concerning two aspects of a Report of Examination (ROE). The bank had previously appealed several violations of Regulation Z that resulted from the implementation of a secured credit card program. This subsequent appeal dealt with two specific issues of the secured credit card program. The first involved a citing of a Regulation Z violation, and the other dealt with the method in which the examiners determined the classified portion of the pool of secured credit card loans.

Background

Nine months before a routine examination, the bank entered into a business relationship with a loan broker. The agreement was that the loan broker would solicit credit card applications from individuals and would require these applicants to pledge collateral (either cash or the cash value on a life insurance policy) in favor of the loan broker. In exchange, the loan broker would present the applications to the bank and offer the bank the partial guarantee of the loan broker on the underlying obligations of the customers. The loan broker charged the applicants fees for its services. At the time the bank entered into the relationship with the loan broker, the programs were limited to "cash cards" and "insurance cards." Four months later the insurance card program was no longer offered. At that time, a derivation of the cash cards called "installment loan cards" became available. In addition to offering the above, the bank purchased existing credit card accounts receivables from another bank. The other bank previously had a relationship with this loan broker. The highlights of the agreement are detailed below.

Establishment and Maintenance of Pool. The loan broker agreed to deposit to the pool an amount equal to approximately 50 percent of the approved line for each credit application accepted by the bank. In addition to the above, funds in a similar pool were transferred from the bank in which the receivables were purchased. If a customer of the loan broker defaulted on his or her obligation to the bank and the default remained uncured for three billing cycles from the date of default, the default in the credit was cured by payment in full from the funds in the pool. The loan broker agreed that at all times at least 30 percent of the dollar amount of the aggregate approved credit card lines would be maintained in the pool.

Loan Broker's Guarantee. The partial guarantee covered all amounts due to the bank in connection with the cards of the loan broker customers to the extent such amounts were incurred or charged within four years after the issuance date of the credit card. The guarantee was limited to $1MM after the bank's receipt and application of the pool and the bank's receipt and application of all collateral under a pledge and security agreement of the same date.

Cash Cards. An applicant would offer cash collateral in the amount of the credit line desired. In addition, the applicant would pay the loan broker a participation fee. In exchange, the loan broker would agree to submit the credit card application to the bank and to support the application with its own partial guarantee, which it collateralized with the pool account. The loan broker agreed to return the collateral to the individual upon cancellation of the card and repayment of all indebtedness thereunder.

Insurance Cards. Each customer had the following three options that could be used to secure a credit card:

(a) Provide cash collateral to the loan broker;

(b) Provide an existing life insurance policy with a sufficient cash surrender value to the loan broker; or,

(c) Purchase life insurance with sufficient cash value through the loan broker and then pledge that insurance to the loan broker.

Once sufficient collateral was pledged to the loan broker, the loan broker would present the application to the bank. If the application was approved, the loan broker would extend a partial guarantee on the customer's indebtedness for four years. The loan broker supported the guarantee with the deposit account described above. The pledge of the insurance to the loan broker remained in effect only as long as the credit card remained outstanding. Once the credit card was cancelled the customer would own the insurance policy free of any assignment. The insurance was universal life insurance or whole life insurance, not credit insurance. Neither the bank, the loan broker, nor any loan account was ever listed as a beneficiary on any of these policies. Each insured was at liberty to list his or her own designated beneficiary. The bank had no knowledge of how much insurance each customer purchased. These cards were only offered for four months.

Installment Loan Card. When the bank and the loan broker stopped offering insurance cards, the bank began to offer the installment loan card. This program was a derivation of the cash card program, designed for persons who did not have sufficient cash to meet the loan broker collateral requirements. Under this program the loan broker would arrange a 24-month installment loan from the bank for the borrower. The borrower would instruct the bank in writing to disburse all of the proceeds to the loan broker. The loan broker would keep one portion of the loan proceeds as its fee. The loan broker would place the remainder of the proceeds in the pool account. In some instances, the loan broker promised to return the portion of the installment loan which it placed in its reserve account, less a fee. In other situations, the loan broker made no such promise.

Once the individual made two installments on the 24-month note (the first payment being taken at the time of the application), the bank would extend a credit card line to the individual. The loan broker extended its limited guarantee to both the installment loan and the credit card line.

Summary of Programs. These programs ran in tandem with the bank's own pre-existing credit card program; however, the bank offered guaranteed credit cards only to borrowers who applied through the loan broker. The interest rates and fees earned by the bank on its own cards versus those generated by the loan broker were somewhat different, although the bank did not feel they were significantly different.

Discussion and Conclusions

Each of the two issues will be discussed separately.

Violation of Law Resulting in Relationship between Closed-End and Open-End Credit

A violation of 12 CFR 226.5 General Disclosure Requirements (Open-End Credit) was cited in the ROE. This section of the regulations states:

> *(c) Basis of disclosures and use of estimates.* Disclosures shall reflect the terms of the legal obligation between the parties. If any information necessary for accurate disclosure is unknown to the creditor, it shall make the disclosure based on the best information reasonably available and shall state clearly that the disclosure is an estimate.

In addition a violation of 12 CFR 226.6(a) Initial Disclosure Statement was cited. This section states:

> The creditor shall disclose to the consumer, in terminology consistent with that to be used on the periodic statement, each of the following items, to the extent applicable:
>
> *(a) Finance charge.* The circumstances under which a finance charge will be imposed and an explanation of how it will be determined, as follows:
>
>> (4) An explanation of how the amount of any finance charge will be determined, including a description of how any finance charge other than the periodic rate will be determined.

In the ROE these violations stated that for open-end credit in the installment loan version of the program, the finance charge must also include the principal amount of the installment loan required to obtain the credit card, less the membership dues.

The bank's appeal states that the bank disclosed the closed-end transactions and the open-end transactions as if they were unrelated to one another. The appeal goes on to state that the bank does not believe the OCC has a legal justification to take a position that the closed-end and the open-end transactions should have reflected one another. The bank summarizes its arguments as follows:

"There is no law directly on point. Neither the statute, regulation, case law nor the commentary directly addresses the issue. However, with respect to credit sales, the commentary does address related transactions stating as follows:

> 16. *Number of transactions*. Creditors have flexibility in handling credit extensions that may be viewed as multiple transactions. For example:
>
> - When a creditor finances the credit sale of a radio and a television on the same day, the creditor may disclose the sales as either one or two credit transactions;
> - When a creditor finances a loan along with a credit sale of health insurance, the creditor may disclose in one of several ways: a single credit sale transaction, a single loan transaction, or a loan and a credit sale transaction.
> - The separate financing of a downpayment in a credit sale transaction may, but need not, be disclosed as two transactions (a credit sale and a separate transaction for the financing of a downpayment).

We continue to believe that this is the best law on the subject of related transactions. If a creditor in a credit sale transaction is afforded the flexibility to separately structure related transactions, we cannot see why the OCC is refusing to allow the bank similar consideration in related loan transactions."

The Office of the Ombudsman found that the violations of law should remain in the ROE. As acknowledged in the bank's letter, none of the above examples (from Section 16 of 12 CFR Part 226.17(c)(1) of the Official Staff Commentary) specifically match the situation at the bank. The example closest to the bank's situation is the third example, however, it does not specifically address the situation where closed-end and open-end transactions are directly linked by a bank, but instead deals with two closed-end transactions. More significantly, it does not appear that the credit sale borrowers in the example were required to finance the downpayment at the same institution. The closed-end transactions in the example could legitimately be considered separate for disclosure purposes. In contrast, if a customer did not choose to secure his or her credit card by cash or the cash value on a life insurance policy, then the customer was required to obtain the closed-end credit as a pre-condition for the open-end credit. If the customer chose the installment loan plan, he or she had no choice but to obtain a closed-end credit from the bank. Therefore, the bank's consumers were undertaking essentially one transaction.

The three examples say nothing about the content of the disclosures, only that they may be done separately. The ombudsman agrees that the bank's decision to make separate disclosures was not a violation. The violations were cited because the content of the disclosure on the open-end credit was incorrect. It did not include the closed-end credit as a finance charge for the open-end credit. The violation did not depend on whether the two transactions were disclosed separately or together, but whether the disclosures accurately reflected the substance of the transaction.

The underlying purpose of the Truth in Lending Act (TILA) is to help consumers make informed credit decisions by guaranteeing accurate and meaningful disclosure of the costs of credit. Given the finding that the bank imposed the closed-end transaction as a requirement for the open-end credit, it follows that the closed-end credit costs would have to be disclosed as part of the open-end credit cost in order to "reflect the terms of the legal obligation."

Loan Classification

The Assets Subject to Criticism page in the ROE classified the balance outstanding on all the secured credit cards as substandard. The bank did not appeal the classification but included in its appeal the following:

> We are unable to understand the OCC's thought process in classifying the secured credit card related loan classifications. In our view, the loan classifications by the examiners were unnecessarily inflated. A major change in the credit card related credits occurred in December 1993, when the bank rescinded the loans in progress and debited the pool account. The examiners were well aware of this fact.

Although the bank did not disagree with the substandard classification, the manner in which the

classification figures were determined was not understood.

The manner in which the examiners arrived at the classified portion of the program is tied to their determination of the "passed" portion of the program representing cash collateral. The examiners determined the entire credit card program (outstanding extensions of credit and contingent liabilities) to be a substandard bank asset and criticized it as such. The difference between the amount classified as substandard and the size of the program consisted of the portion of the credit card deposit account that provided partial security for the program. This portion was excluded from the classification because the security was in the form of cash. The bank was given credit for 30 percent of the total amount in the credit card program (including outstandings and unfunded amounts on issued credit card and installment loans). The "passed" amount was split proportionately between the outstanding installment loan portfolio (58 percent) and credit card portfolio (42 percent). The "passed" amount was split proportionately instead of applying it all against one portfolio because the examiners did not want to appear to be classifying one portfolio and not the other. There was no conscious effort to classify contingency credit more severely than outstanding credit. The examiners' intent was to reflect that a portion of the whole program was not subject to criticism because of the cash in the pool account.

The ombudsman concluded that ROE overstated the classified amounts of the extensions of credit related to the credit card program. Although examiners typically use financial information as of the examination date, if material events occur (either positive or negative) while the examiners are in the bank, the numbers are adjusted. Because the rescissions took place after the examination team left the bank, the level of credit-card-program-related classified assets was not adjusted. Because these rescissions were completed and all refunds made before the ROE was mailed, the ombudsman felt the classification numbers should have reflected these actions.

The appropriate supervisory office provided the bank with an amended Assets Subject to Criticism and Summary of Assets Subject to Criticism report pages to reflect the above changes.

Speeches and Congressional Testimony

Statement of Stephen R. Steinbrink, Senior Deputy Comptroller for Bank Supervision Operations, before the Subcommittee on Financial Institutions Supervision, Regulation, and Deposit Insurance of the House Committee on Banking, Finance, and Urban Affairs, on credit availability for small businesses, Washington, DC, October 6, 1994

Mr. Chairman and members of the subcommittee, thank you for providing me this opportunity to discuss with you the availability of credit to small businesses, particularly minority-owned small businesses.

Recognizing the vital role small businesses play in the U. S. economy, the Office of the Comptroller of the Currency (OCC) has implemented regulatory changes to improve the access to credit of small- and medium-sized businesses and farms. Specifically, in conjunction with the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board (FRB) and the Office of Thrift Supervision (OTS), the OCC has implemented a series of initiatives to reduce required loan documentation on small business loans and to simplify appraisal standards for certain small business borrowers.

In addition, proposed revisions to the Community Reinvestment Act (CRA), developed jointly with the FDIC, FRB, and OTS, would formally recognize the importance of small business and farm lending in the CRA programs of some banks. Under the proposal, which was publicly released on September 26 and will be published in the Federal Register on October 7, examiners, where appropriate, would include the geographic distribution of a bank's small business loans, the distribution of small business loans by loan size, and the distribution of small business loans by business size in assessments of a bank's lending performance.

As we strive in these ways to improve the access to credit of small businesses, we are particularly sensitive to our obligation to ensure their fair and equitable access to credit, regardless of the race or gender of the borrower. However, a longstanding prohibition against the collection of race and gender data on small business loans has, to date, made it difficult to monitor compliance with fair lending laws with respect to business lending. The joint agency proposal to revise the CRA would require larger banks and thrifts to begin to collect those data — which would facilitate lenders' own efforts at self-monitoring and improve regulators' ability to detect evidence of discrimination or other illegal credit practices — a longstanding CRA assessment factor. In this regard, the proposed regulation would accomplish many of the objectives of H.R. 918, the Small Business Lending Disclosure Act.

The remainder of my statement discusses these issues in greater detail. Specifically, I will first discuss the credit availability initiatives. Second, I will describe the proposed revision to the CRA regulation pertaining to small business lending, including new data reporting that would be required by the joint proposal. Finally, I will explain how those data would be used to enhance the agencies' ability to conduct CRA examinations.

Credit Availability for Small Businesses

Small businesses play a critical role in the U.S. economy. They are a primary contributor to growth in jobs and productivity, and are an important source of competition and innovation. Unlike large, publicly traded corporations, which can, and increasingly have, turned to other sources of financing, small businesses depend heavily on bank loans to obtain operating capital and financing for expansion. Bank loans also play an important role in financing new small businesses, a key ingredient in the revitalization of economically distressed communities. Consequently, when credit dries up as it did a few years ago, small firms probably are hurt more than large firms. That conclusion is supported by industry surveys.[1]

Small businesses can have difficulty getting credit for many reasons. Unlike large publicly traded firms, small businesses typically do not have audited financial statements, and their income streams can be less predictable than those of larger, more economically

---

[1]While some of the following surveys were based on limited samples and on methodologies that were not fully disclosed, they provide some anecdotal evidence that small businesses were particularly affected by limited credit availability.

- Sixty percent of respondents to the January 1993 Federal Reserve Senior Loan Officer Opinion Survey believed that banking legislation and regulation had a disproportionate effect on lending to small business.
- A December 1992 paper published by the National Federation of Independent Business found a concentration of credit availability problems in larger small firms (40+ employees), where owners borrow relatively large amounts frequently, as opposed to smaller firms (less than 10 employees), which demand less credit.
- A July 1992 study by Arthur Anderson and National Small Business United found that nearly half of all small business owners tried to get bank loans in the past year, and nearly one in every four applicants was turned down.

and geographically diverse organizations. This can make it more costly for them to supply the financial data required by banks to underwrite loans. Small businesses are also less likely than large vertically or horizontally integrated firms to have many assets that can be pledged as loan collateral. Looked at from a different perspective, small loans may generate for lenders smaller profits, in dollar terms, to offset a relatively higher cost of loan administration.

In an effort to eliminate regulatory impediments to small business lending, the four bank and thrift regulatory agencies announced, in March 1993, a program of 11 specific regulatory and administrative policy changes directed at increasing the flow of credit to sound borrowers, with particular emphasis on small and medium-sized businesses. Two of these 11 initiatives warrant special mention. First, well- or adequately capitalized banks with a CAMEL rating of 1 or 2 (or a 3 with prior OCC approval) were permitted to put small and medium-sized business credits into a loan "basket." As long as those credits perform adequately, they are exempted from examiner criticism. Thus, a lender can be assured that sound loans, even if they do not fit a specified set of criteria — as many small business loans do not — can be made without second-guessing by examiners.

Second, small business lending should be facilitated by imposition of less stringent real estate appraisal standards. Because small businesses often have few tangible assets, their owners frequently secure loans with mortgages on their places of businesses or their homes, even though the source of repayment for the loan is the cash flow from the business itself. The banking and thrift agencies changed their appraisal rules by increasing from $100,000 to $250,000 the threshold loan size below which appraisals are not required; expanding existing exemptions to the appraisal requirements; and identifying additional circumstances, particularly for small business lending, in which appraisals are not required. The historical performance of real estate loans of under $250,000 suggests these changes will make it easier for small and medium-sized businesses to obtain credit but will not compromise safety and soundness.

A healthy economy and the improved financial condition of banks in particular contributed to a general easing of credit terms and an increase in loan demand. But we believe that our initiatives also played a role in the resurgence in small business lending.

I am pleased to report that the credit environment has greatly improved for all businesses during the last 18 months. The trends in bank asset and loan growth during that time have been positive. For example, since the beginning of 1993, national bank assets have grown at an average annual rate of 3.4 percent (after adjusting for accounting changes), compared to an average annual growth rate of just 0.5 percent over the preceding three years. Even more encouraging, the outstanding loan amounts of all three major types of loans—commercial and industrial, real estate, and consumer—increased over the last 18 months. The volume of small businesses loans has also increased because banks' share of small business loans as a percentage of total loans has remained constant as the level of total outstanding loans has risen.

Existing Data Collection on Small Business Lending

I will now turn to discussing what the banking regulators have done to measure more closely banks' role in providing credit to small businesses and how our ability to assess the lending climate might be improved by the proposed data collection revisions to CRA.

Section 122 of the Federal Deposit Insurance Corporation Improvement Act of 1991 requires the federal banking and thrift agencies to collect from insured depository institutions annual data on small business and small farm lending. To implement Section 122, the agencies began last year to collect data on business loans of less than $1,000,000 and farm loans of under $500,000. The data are now collected once a year in the June submission of banks' Quarterly Reports of Income and Condition (call reports).

When the banking agencies developed those reporting requirements for small business and small farm loans, we believed that the cost to lending institutions of developing loan data files on borrower size based on the borrower's assets, sales, number of employees, or other characteristic would be substantial. Therefore, rather than use borrower size, we established an alternative measure of size based on the original amount of a loan, loan commitment, or credit facility. This alternative imposes far less reporting burden and acts as a reasonable proxy for small business and small farm loans.[2]

Data reported with the June 1994 call reports show that banks make a sizable number of small business and farm loans. By dollar volume, these loans accounted for 35 percent of all business loans and 81 percent of

[2]This conclusion was supported by information from the 1989 National Survey of Small Business Finances that indicated a strong correlation between loan size and business size. The FFIEC thus concluded that data on business and farm loans by size of credit arrangement would strike a balance between the agencies' need for information under Section 122 of FDICIA and the cost and reporting burden imposed on all insured depository institutions.

all farm loans made by domestic offices of commercial banks. Small banks, which hold only 26 percent of total bank assets, play a disproportionately large role in making small business loans, accounting for 47 percent of all small business loans.

Proposed Enhanced Data Collection

I would now like to discuss the interagency efforts in revising small business data requirements of CRA. At the outset, let me make clear that I believe that additional data collection would enhance our ability to judge how well lenders help meet credit needs in their communities. However, let me also note that I realize that increased data disclosure would pose a cost to the industry. Thus, before considering any new reporting requirements, we must carefully balance costs and benefits. We must also keep in mind that banks must compete with other types of lenders in supplying small business credit; thus, excessive requirements on banks could be counterproductive if they damage banks' competitive position vis-a-vis nonbank credit providers.

The CRA encourages banks and thrifts to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. Unfortunately, despite its many successes, CRA enforcement has too often emphasized documentation and paperwork rather than actual lending. Consequently, in response to a chorus of criticisms by both bankers and community-based organizations, the federal banking and thrift agencies are proposing to change their approach to implementing the CRA to emphasize results, not process. The collection of additional data on small business loans is but one part of this broader initiative.

Since the CRA encourages banks and thrifts to help meet credit needs of their *entire* communities, evidence of illegal discrimination suggests a failure to serve at least some portion of the community. Such evidence, understandably, adversely affects an institution's overall CRA rating. Since the enactment of the CRA in 1977 and the development of its implementing regulations in 1978, evidence of discrimination or other illegal credit practices has been a critical factor taken into account as part of a CRA examination.

In order to determine whether there is any evidence of discrimination, the federal bank and thrift regulatory agencies have routinely conducted fair lending examinations concurrent with, or immediately preceding, CRA examinations. If the fair lending review reveals evidence of discrimination, the agencies consider the nature and extent of the evidence, the policies and procedures that the bank or thrift has in place to prevent discriminatory or other illegal credit practices, any corrective action that the lender has taken or has committed to take, particularly voluntary corrective action resulting from self-assessment, and other relevant information, such as the institution's past fair lending performance, in determining the effect of the discrimination on the institution's overall CRA rating.

To date, however, except for home mortgage and home improvement loans, banks and thrifts have been prohibited from collecting race and gender data in conjunction with loan applications. As a result, critical data have not been available for lenders to use in conducting self assessments or for examiners to use in fair lending reviews. While that prohibition was undoubtedly intended to discourage illegal use of race and gender information in the disposition of loan applications, its effect has been to compromise the information needed by lenders to conduct effective self assessments of fair lending compliance, and by examiners to conduct periodic fair lending examinations.

The requirement to collect race and gender data on small business and small farm loans in the joint proposed CRA regulations represents an effort to enhance the opportunities for lenders to conduct internal fair lending reviews and to improve the effectiveness of regulatory fair lending examinations. The proposed data reporting, particularly if the data are collected in conjunction with applications, would permit the kind of comparative file analysis now possible only on home mortgage and home improvement loans. It would also enable bankers, regulators, and the public to have a clearer picture than now exists of where, and to whom, credit is being provided.

The joint agency CRA proposal which is being published this week would require larger banks and thrifts to collect and report data on a loan-by-loan basis for all loans included in the aggregate small business and small farm loan figures on the bank's call report, which includes business loans with original amounts under $1 million and farm loans with original amounts under $500,000. These data would include the outstanding balance as of December 31 of each year, the location of the business or farm or the location where the loan proceeds would be applied (as indicated by the borrower), an indication of whether the borrower has annual revenues of $1 million or less, and an indication of whether the business (if not publicly traded) is more than 50 percent owned by one or more minority individuals or by one or more women. The loan register information would be required to be submitted at the same time and in accordance with the provisions for submitting HMDA data as provided in 12 CFR Pat 203 (Regulation C). In addition, the revised proposal would change the date on which call report data on small business and small farms loans would be required to

be submitted from June 30 to December 31 of each year to coincide with the calendar year reporting requirements of HMDA.

The revised proposal, while providing the agencies with critical information, would protect the privacy of individual borrowers. The institution would retain, but not report or disclose, the information on applicants who did not receive a loan. We would not require an institution to put the detailed small business or small farm loan registers containing information on individual applicants in its public file. Specifically, under the revised proposal, *aggregated* loan data for small business and small farm loans would be placed in the public file. Those data would include: (1) the number and amount of loans in low-, moderate-, middle-, and upper-income geographies; (2) a list of the geographies in which an institution made at least one loan; (3) the number and amount of loans inside and outside the institution's service area; (4) the number and amount of loans to minority- and women-owned businesses; and (5) the number and amount of loans to businesses and farms with annual revenues of $1 million or less. Loan registers would be available to agency examiners to confirm the accuracy of the aggregated data but banks and thrifts would not submit those data to the agencies and the agencies do not intend to make individual loan information available to the public.

Conclusion

The OCC is committed to ensuring the flow of credit to small businesses and other borrowers, while maintaining a safe and sound banking system. The OCC, along with the other Federal regulatory agencies implemented the multi-faceted Credit Availability Program last year to address concerns that regulatory policies and practices may have been inappropriately limiting the willingness of banks to lend to creditworthy small businesses.

Along with the Federal Reserve, the FDIC, and the OTS, the OCC proposed for comment revision to the regulations implementing the Community Reinvestment Act. That proposal would require banks to report information that would improve the ability of the regulators to assess an institution's fair lending record which is an important element of its CRA performance. I believe that, as proposed, the revised regulation would achieve most of the objectives sought by H.R. 918, the Small Business Lending Disclosures Act, and the OCC looks forward to public comments on the proposal as we, and the other regulators of insured depositories, develop final revisions to the CRA regulation.

Remarks by Eugene A. Ludwig, Comptroller of the Currency, before the American Bankers Association Annual Convention, on the evolution of the banking industry, New York, New York, October 8, 1994

As the banking industry approaches the 21st century, the most important task facing bank supervisors is providing leadership to ensure that the banking system remains sound, remains competitive, and continues to play its vital role in the American economy. I will focus my remarks today on three aspects of that task: first, the challenges banks and their supervisors face in the current healthy banking environment; second, the steps we at the Office of the Comptroller are taking to make bank supervision and regulation more efficient; and third, the initiatives we have underway to increase the industry's competitive opportunities.

Industry Condition

Let me begin with a brief overview of the industry as we enter the mid-1990s. Those cynical critics who tagged banks as dinosaurs have recently found themselves in Jurassic Park. As you know, the banking system is currently in its best shape in over a decade. Earnings are at a record level. Capital ratios are at their highest point since the early 1960s. The credit quality problems that weakened much of the industry in the late 1980s and early 1990s are mostly behind us.

Banks have enjoyed widespread profitability and strong capitalization over the last two and one-half years. Since 1991, the percentage of commercial banks losing money and the number of undercapitalized banks have fallen significantly. What's more, profitability and capitalization have improved for almost all segments of the banking industry in virtually every region of the country.

A particularly encouraging indicator of the industry's overall strength is its international competitiveness. According to a recent comparison of earnings, profitability, and cost control, five of the world's 10 most profitable banks are American. In another recent international ranking of profitability, U.S. banks held 15 of the top 25 positions. According to a study my staff released this year, while foreign-owned banks gained market share in the U.S. market, over the past decade, domestic banks consistently achieved higher profit rates and, more recently, have had a lower proportion of nonperforming loans to total loans.

Several factors account for this relatively strong showing by U.S. banks. In response to an increasingly challenging environment, U.S. banks have aggressively pursued improvements in efficiency. Last year alone, banks reduced their ratio of non-interest expense to assets by 5 percent. They have become global leaders in providing new off-balance-sheet products. Further, with some encouragement from their regulators, U.S. banks have recognized and dealt with their asset-quality problems earlier and more decisively than their foreign competitors.

But while the news is largely good, we cannot afford to become complacent. The rate of improvement in earnings was only 5 percent in the first half of 1994 — compared to 80 percent in 1992 and 35 percent in 1993. All three of the factors that drove the increase in earnings in 1992 and 1993 — improving credit quality, increasing net interest margins, and rising fee income — leveled off in the first half of 1994.

At times like these, banks and bank regulators must be especially watchful. We must keep our houses in order, so we can weather the inevitable cyclical downturn. Recently, the Office of the Comptroller surveyed underwriting standards at the large syndicating banks. Our examiners reviewed credit data and analyzed loan pricing information. We found signs that some banks have eased their underwriting standards over the last several quarters, and that loan pricing is thinner now than it has been in the recent past. We also saw some indications that loan structures are weakening. Some of these changes may reflect an improved economy and the stronger condition of borrowers, and we will continue our efforts to gauge the potential effects of these changes. I want to make it clear that I do not believe that the slippage I see — and that others see too — is at this point a serious problem. But it is a signal to all of us to remain alert — to avoid a repeat of mistakes made in the recent past.

Improving Regulatory Efficiency

For bankers and bank regulators alike, preparing our organizations to weather the eventual cyclical downturn calls for a close focus on efficiency. For that reason, I have given increasing attention to the issue of regulatory efficiency in recent months. Let me turn to that subject now.

Bank supervision and regulation impose both direct and indirect costs on the industry—direct costs in the form of fees and assessments to fund supervisory activities, and indirect costs imposed through regula-

tion and examination policy. We are working to reduce both forms of costs.

Fees and Assessments. The Office of the Comptroller is not the lowest cost bank supervisor. A major reason is that we make the investments necessary to understand where the banking industry is headed nationwide, to hire top-quality examiners, and to develop the tools we need to evaluate complex risks. But, because national banks pay for our operations, we are, of course, concerned about the effects our fees and assessments have on them.

Last spring, prompted by industry concerns that our application fees were out of line with those of other supervisors, I directed my staff to review our fees and assessments from top to bottom. That review is now complete. As a result, effective January 1, we will cut our fees for each of the 26 types of corporate applications we process. We will cut them, on average, by more than half — some fees by more, some fees by less, but on average, by more than half.

For example, today we charge $1,500 to process ATM applications. We are going to cut that to $400. We charge $1,900 to process a branch application. That will fall to $700. And we also charge $1,900 to process head office or branch location changes. That fee will also fall to $700.

We are also doing the necessary regulatory spadework to prepare for a cut in our trust examination fees. And, some time around the first of the year, I hope to be able to announce a small but appreciable reduction in national bank assessments as well. I will also press my colleagues on the Federal Deposit Insurance Corporation board of directors to lower FDIC premiums as soon as the Bank Insurance Fund is replenished.

Reducing the Cost of Regulation. From an administrative perspective, managing direct costs is the easy part. Indirect costs are much harder to tackle. The sometimes invisible costs that our regulations impose on the banking industry are much more substantial than the direct fees banks pay. At the Office of the Comptroller, we are working hard to demonstrate that regulatory efficiency is not a contradiction in terms. We are updating our regulations to recognize changes in the banking industry. We are focusing our efforts on areas of genuine risk. And, we are reducing regulatory burden wherever we can without compromising safety and soundness.

We have proposed substantial changes in the lending limit rules for national banks. These revisions will provide national banks — and particularly smaller national banks — with flexibility in complying with lending limits. We will finalize these changes by the end of the year.

Within a few weeks, we will announce a proposal to streamline our rules on corporate activities and transactions. Last year, we received nearly 4,000 applications for corporate activities. Half of them were applications to establish automated teller machines. Branch applications made up much of the remainder.

Our revised rules will significantly streamline the way the Office of the Comptroller handles most of these applications. Under the new system, if a strong, well-managed bank files an application and does not hear from us for 30 days, its application will be automatically approved. As of last June, about nine out of ten national banks would have qualified for this expedited treatment.

In addition, we will soon publish revised rules governing the disclosures required when national banks sell securities. These changes will make it easier for banks to raise capital. And, within the next few months, we will issue proposals amending our trust activities regulation to modernize our rules governing the types of securities that national banks can invest in. On all of these proposed changes in our regulations, I invite and welcome your comments.

Keeping regulatory burdens to a minimum, however, is not a simple matter, and in some cases the choices that we face are not clear-cut. Take, for example, the agencies' efforts to develop capital regulations.

The risk-based system of supervising capital is a major step toward improving our capital regulations. The leverage capital ratio has the advantage of being simple, but it is an inherently flawed approach because a bank is only charged capital based on the level of its assets — regardless of the risk of its operations, both on and off the balance sheet. However, as the risk-based system develops, it increasingly exposes a flaw of its own. It makes estimating capital much more complex.

The pressure on bank supervisors to perfect the risk-based system is stalwart. Banks face credit risk from individual borrowers, risk from changes in interest rates, risk that cash flows will be inadequate to meet client demands, risk from concentrating too much on one industry or one region of the country, risk from entering a new line of business and risk from changing technology, to list only a few. But the risk-based system focuses almost solely on credit risk.

The simple logic of the situation cries out for extension of the system to encompass risks that are now beyond its reach. Already, Congress has required us to add standards for interest rate risk, concentrations of credit, and non-traditional activities. We could add several

others. But every time we extend the system, it gets more costly for banks and their supervisors alike. The mixture of quantitative and qualitative evaluations, the complexity of the quantitative standards, and the growing burden of monitoring regulatory capital adequacy — all these are sources of costs. Each succeeding extension of the system adds more cost. At some point, the costs of further logical perfections to the system simply must outweigh the benefits.

We must also acknowledge that in some areas we do not have the technology necessary to develop quantitative measures of risk that can be incorporated into a formula-based minimum capital charge. Concentration, liquidity, and fiduciary risks are instances in which this may be the case. This does not mean that these risks can be ignored. But it makes no sense to impose requirements that imply a degree of precision that does not exist in reality. Moreover, we take other supervisory measures beyond capital to deal with these risks.

Another reason regulators must be sensitive to making revisions to capital standards is that banks are automatically subject to sanctions when they slip below minimum capital requirements. Recent changes in GAAP accounting rules brought on by FAS 115 are especially troubling in this regard. Market value accounting principles may give investors better insight into the financial condition of banking companies, but they also make more volatile the amount of capital banks report. Banks should not face sanctions as a result of transitional market movements. Such a system could leave banks unduly focused on short-term market movements. I would prefer to see a focus on maintaining long-term relationships with borrowers.

Beyond improving our rules, we are doing what we can to make our supervision more cost-efficient. We have begun to differentiate among classes and types of banks in our supervision, starting with efforts to address the particular characteristics of both our largest banks and our smaller, more stable, traditional, community-based banks. As of October 1, our new, streamlined small bank examination procedures were fully phased-in — right on schedule.

And, just last week, I announced the creation of a task force within the Office of the Comptroller. That task force will make recommendations to me by June 1, 1995, on how the agency should organize its personnel and information resources to meet the challenges that consolidation of the industry and interstate banking are bringing. A primary goal of this effort will be to make supervision of national banks consistent coast-to-coast — regardless of where a bank does business.

Keeping Banks Competitive

Now, let me turn to my third subject: making banks more competitive with other financial services providers. We all know that we will only have a vigorous banking system so long as banks keep pace with the changes taking place in our world. Although it has sometimes been painful to take this position in Washington, the Office of the Comptroller has consistently supported new products, services, and opportunities for national banks — including, recently, derivative products and bank sales of mutual funds. Let me assure you, so long as I am Comptroller, we will continue to support diversity.

Earlier this year, we signaled Congress that we would continue to push against outdated geographic restrictions — and added momentum to passage of a federal interstate banking law. We did that by approving an application from First Fidelity Bank to move its main office to another location across state lines, giving them a multistate branch operation.

In approving new bank products and services that benefit bank customers, I look at two critical factors: can the product of service be offered in a manner consistent with safe and sound banking practices, and can we supervise it appropriately? As you know, whenever banks offer new products, the public and Congress worry about the risks they pose. They are concerned that many banks might fail and put the taxpayers at risk of a bailout. They worry about the damage to the financial system if a major bank should fail. And they fear banks might offer these products without the consumer protections provided by securities or insurance firms.

Too often, these concerns lead members of Congress and other participants in banking policy discussions to limit the expansion of bank activities. In some cases, they simply lack confidence in the competence and skill of the bank regulators to supervise those activities. In other cases, they lack faith in the willingness of bank supervisors to take the steps necessary to protect consumers fully.

Recognizing these concerns, I have worked hard to ensure that our supervisory system expands in tandem with the expanding opportunities of national banks. Thus, while taking actions to expand the competitive opportunities available to national banks, I have pressed hard to make sure the Office of the Comptroller has the technical and regulatory expertise to supervise new activities responsibly, whether from a safety and soundness perspective or from a compliance perspective. You can see this approach in our recent actions. While we issued a banking circular outlining the duties

of directors and senior management of banks involved with derivative products, we also have supported participation of national banks in derivatives markets. Similarly, we have taken several steps to make sure bank customers would be informed about the risks of uninsured products and that banks maintain proper controls to ensure a high standard of consumer protection. And we have approved the acquisition of Dreyfus Securities by Mellon Bank.

Conclusion

In conclusion, bank supervisors today face three important challenges. They must recognize the potential for problems to develop, even when times are good; they must keep all costs of bank regulation under control; and they must ensure that banks have the broadest opportunities to compete, consistent with safety and soundness.

For my part, I'm committed to making the Office of the Comptroller a champion for change and an agent of renewal. In one way or another we will succeed — from reducing the regulatory burden we impose to supporting new products and services for banking — from substantially reducing our assessments by the first of the year to advocating a reduction in FDIC premiums the moment the Bank Insurance Fund is replenished to reducing the regulatory burden we impose. I am doing my part to enhance the ability of banks to deliver.

The national banking system helped knit our country together — indeed, promoting national unity was one of the motives behind the National Currency Act. The national banking system provided the foundation for the extraordinary economic expansion that propelled America to its present unrivaled position in the world. It anchored thousands of communities. It mobilized the country's financial resources. It financed businesses that produced goods and services — and that produced jobs as well. To paraphrase a saying I often heard while growing up, "banking traditionally did well by doing good." Together we can make sure that tradition continues.

Remarks by Eugene A. Ludwig, Comptroller of the Currency, before the Savings and Community Bankers of America, on use of derivatives and managing risks, Lake Buena Vista, Florida, October 17, 1994

Over the past several years, the derivatives markets have been growing rapidly. Many of your institutions are using, or will probably use, derivatives. These financial instruments can provide a variety of benefits. You can use them to hedge risk, reduce funding costs, and enhance the overall financial performance of your institutions. In addition, by using derivatives to disaggregate financial risks you can gain a deeper understanding of risk generally — knowledge you can productively apply to the management of your institution's other risk-taking activities.

Today, I want to say a few words about the need to use good judgment and experience in order to manage financial risks appropriately, because even the most sophisticated risk management models have their limits. I will then briefly describe what steps the Office of the Comptroller of the Currency has taken to ensure that national banks are managing their risks in a sound and prudent manner.

Understanding Derivatives' Risk

Unfortunately, with all the recent attention focused on derivatives, some believe that any financial instrument called a "derivative," is somehow tainted. Actually, there are significant differences in types and degree of risk different derivatives pose. That is why it is important to focus on the risks posed by the specific type of derivative as opposed to the name of the instrument.

Derivatives pose many of the same risks present in other financial transactions — i.e., credit risk, market risk, liquidity risk, legal risk, operations and systems risk, and reputation risk — but for certain derivative instruments, those risks may be present in less intuitive ways. For example, certain types of structured notes pose very little credit risk, but are very sensitive to changes in interest rates. And, if market liquidity declines, the price you paid for those notes may greatly exceed what you would get by selling them, even if interest rates have not changed much.

Using derivatives tends to require mathematical models developed by highly skilled financial professionals. Sophisticated models are useful tools for measuring and monitoring the risks associated with derivatives. Depending upon the activities of your institution, such models may be essential. Mathematical models, however, have their limits.

Any effort to quantify risk depends upon numerous assumptions. Derivatives are no exception. But, the appropriateness of any particular assumption depends upon the market environment and the context for which the risk measure will be used. As a consequence, there is an inherent degree of subjectivity in the quantification of risk — it has been and remains today an art as well as a science. For that reason, the essence of sound risk management will always be good judgment and experience.

Ask questions. Let me give you two helpful rules of thumb.

Rule 1: If a security looks too good to be true, it probably is. Most likely, you or your staff do not understand all of the risk elements. If you don't understand a security, don't buy it.

Rule 2: "Buy" your portfolios; don't have them "sold" to you. You know the difference. An institution that "buys" its portfolio is following an investment strategy that outlines what the portfolio is trying to accomplish — usually an asset-liability management objective. But, a portfolio that's been "sold" to an institution typically looks like a collection of "deals of the week" and doesn't fit a coherent strategy.

Ask questions about the mathematical models, too. Even the most sophisticated mathematical models are based on logical, and in most cases time-tested, valuation methods. If you don't understand the answers you receive, it may be the person explaining the model to you does not understand it very well. Here's how to tell: look for somebody who can explain the model in terms of understandable financial concepts. Somebody who has to rely on mathematical symbolism to talk about one of their models is unlikely to understand the model's limitations. And, if a model doesn't make sense to you in terms of understandable financial concepts, it may be that the model itself is flawed. Create a new model.

I read a recent article in which a senior manager from a major derivatives dealer bank was quoted as saying that he "would prefer a C-rated model with weaknesses and have people with experience and intuition to run our risk management than have an A-rated model with a C-rated team of people who don't understand the model." I couldn't agree more. Recognize the importance of good judgment and the limitations of the

mathematics. More risk managers should follow his lead.

Now that I've discussed a few key components of sound and prudent risk management, I would like to talk about what the Comptroller's office has done to ensure that national banks conduct their risk-taking activities appropriately.

Supervisory Approach of the Office of the Comptroller of the Currency

A year ago, my office issued Banking Circular 277 — "Risk Management of Financial Derivatives" — which provided guidance on risk management practices to national banks. The guidelines in the circular represent prudent practices that will enable a bank to conduct financial derivatives activities in a safe and sound manner. To the extent possible, the guidelines should be applied to all of a bank's risk-taking activities. The document covers all aspects of risk management, including senior management and board oversight, market risk management, credit risk management, liquidity risk management, operations and systems risk management. In addition, our guidance discussed the need for banks to put together systems that will allow them to uncover new risk combination — so called inter-connected risks — in other words, to expect the unexpected.

In short, for our part, the OCC expects each bank to adopt and have in place a "no surprises" risk management policy made concrete in systems and controls.

More recently, last July, my office issued Advisory Letter 94-2 — "Purchases of Structured Notes" — out of concern that some national banks, particularly community banks, had purchased structured notes without fully understanding all of the risks they had assumed. That letter stated that "because of the risks involved and the difficulty in assessing those risks, some types of structured securities are inappropriate investments for most national banks. The determination of whether a particular instrument is appropriate depends on the bank's ability to understand, measure, monitor, and control that instrument's risk consistent with Banking Circular 277."

Some have interpreted this guidance as saying that banks shouldn't purchase and hold structured notes, or engage in other types of derivatives transactions. That is not our intent. Rather, our supervisory approach is designed to ensure that risk management is sound and proper.

Conclusion

Although the fundamental risks posed by derivatives are not new, there is no question that those risks exist and must be managed appropriately by institutions involved in derivatives activities. Such management requires a high level of technical and financial sophistication, including the use of sophisticated mathematical models, in combination with the exercise of sound judgment and the use of knowledge gained from experience. The Office of the Comptroller of the Currency looks for all these capabilities in its supervision of derivatives activities in national banks.

Remarks by Konrad S. Alt, Senior Deputy Comptroller for Economic Analysis and Public Affairs, at the OCC Northeastern District Meeting, on the OCC's four pillars, Newark, New Jersey, November 1, 1994

I really appreciate the opportunity to be here today. What I'd like to do is spend a few minutes talking about our agenda at the Office of the Comptroller of the Currency. After that I thought I might stop and take questions for a bit.

The OCC's Agenda

Let me start by talking a bit about our overall agenda at the OCC.When Gene Ludwig took the oath of office 19 months ago, he laid out four goals for his term as Comptroller of the Currency. These goals have since become the four pillars of his agenda for the agency. They are:

- First, to ensure the safety and soundness of the national banking system.
- Second, to promote banks' ability to compete.
- Third, to improve the efficiency and effectiveness of OCC supervision.
- And finally, to ensure fair and equal access to financial services for all Americans.

In the past 19 months, we have made significant progress on all four fronts. Let me begin with the most important of the four pillars — ensuring the safety and soundness of the national banking system.

Safety and Soundness

U.S. banks are now in their third straight year of record earnings and decreasing problem assets. This happy state of affairs reflects not only the continuing strength of the economic recovery but also the willingness of bankers and regulators to deal with the loan problems they inherited from the 1980s. A lot of you here today worked hard to get the industry's credit quality problems behind it. You have a lot to be proud of.

At the OCC, we have been working diligently to make sure the bad old days stay behind us. We are trying to be proactive — to identify potential problems in banking before they can cause significant harm to individual institutions and to the industry as a whole. That is the rationale behind our guidance to banks and examiners on managing the risks of derivatives activities. We do not believe, based on our examinations to date, that derivative instruments pose a significant risk to the national banking system. But the market is evolving rapidly, and highly complex products are proliferating. The situation warrants careful monitoring, and we are monitoring carefully.

You can also see our concern with safety and soundness in the Comptroller's recent warnings about a decline in bank underwriting standards. Again, we do not see a severe current problem. We see indications of a trend that, left unchecked, might give rise to a problem at some point in the future. But that is the point of being proactive: we are trying to call attention to the issue now, in hopes that we won't have to call attention to a problem later.

Although safety and soundness remains the OCC's core mission, we are well aware that, over the long term, the safety and soundness of the banking industry depends on banks' continuing ability to compete — to change to meet the changing financial needs of their customers. That is the second pillar of the OCC agenda — promoting banks' ability to compete in an increasingly competitive environment.

Ability to Compete

The OCC's actions in this area fall into several categories. We have worked, and are continuing to work, to promote banks' ability to offer new products and services to their customers, so long as banks have the expertise to manage the risks of these products effectively and to provide the necessary consumer protections. Over a year ago, the Comptroller said that, to the extent he can legally do so, he will allow national banks to offer new products and services whenever they meet two basic tests:

- First, the new product or service must not cause material safety and soundness problems.
- Second, on balance, it should benefit consumers of financial services — consumers in the broadest sense, large and small, businesses as well as individuals.

To date, the OCC has been true to the Comptroller's word. Let me give some examples. Almost a year ago, we approved First Fidelity's application to relocate its head office from Pennsylvania to New Jersey, thereby creating an interstate branching network long before

the interstate bill was signed into law. In fact, I believe that application added significantly to the legislative momentum that culminated in passage of the interstate bill.

Last May, we approved Mellon Bank's application to acquire the Dreyfus mutual funds group, and a similar application by First Union to acquire the Lieber funds. We have also been fighting for the ability of national banks to offer annuities to their customers — a battle we have taken all the way to the Supreme Court.

Our ability to promote banks' competitive abilities could be severely limited, however, should Congress decide that banks or their regulators are not acting appropriately to manage the risks of new activities. That is one reason the OCC has moved so quickly to demonstrate our expertise in derivatives and other new banking activities — to assure Congress of our ability to adequately regulate new banking activities. The financial markets are changing rapidly. However well-motivated, laws attempting to limit risks to banks in some of these new areas may only serve to consign banks to the competitive sidelines.

Apart from our concern about safe and sound bank operations, we at the OCC believe the best way to prevent needless legislation is to demonstrate that we are already acting responsibly to understand, to monitor, and where appropriate, to limit the risks of new banking activities — the risks to banks, to their customers, and ultimately to the deposit insurance fund and the U.S. taxpayer.

OCC Supervision

The third pillar of our agenda is improving the efficiency and effectiveness of OCC supervision. Here, too, we have taken significant steps. For example, we have introduced streamlined exam procedures for non-complex banks, reflecting the reality that many of these institutions have similar risk profiles.

Our focus is on risk: what is the risk to the institution? How can the OCC best ensure that the bank has the expertise, systems, and controls to manage that risk effectively? In both cases, we believe the result is better supervision at a lower cost to national banks.

Another major element in our efforts to improve OCC supervision is our regulatory review project. The OCC is streamlining and clarifying all of its regulations to reduce regulatory costs and unnecessary burdens. By the end of this month, the OCC will have published new final rules simplifying the legal lending limit for national banks and the requirements for securities registration and offerings. By year end, we expect to propose new regulations streamlining our corporate applications process and clarifying the requirements for investment securities.

One final thing I'd like to mention as part of this effort to make the OCC more efficient is our review of OCC fees and assessments. We have identified areas where we can make cuts with no loss in service to the banks we supervise. This week, we will announce the new schedule of all fees for corporate filings, effective January 1995. On average, those fees will be cut by more than half. Some fees, such as those for branch and ATM applications, will be cut much more. Later this month, we expect to announce reductions in fees for trust and other special examinations. And finally, we expect to make small but appreciable cuts in the OCC's schedule of assessments for national banks, effective January 1995.

Improving Access to Financial Services

It is a sure sign of the health of the banking industry that the fourth pillar of the OCC agenda — ensuring fair and equal access to financial services for all Americans — has received the greatest amount of attention from the public and the news media. Unfortunately, many of the news reports contradict each other and, in some cases, are just plain wrong. So let me try to set the record straight.

Fact: The OCC is committed to enforcing CRA and the fair lending laws. But these laws are nothing new. They have been on the books for more than 17 years.

Fact: Even though last night was Halloween, the OCC is not on a witch hunt. Over the past 18 months, the Comptroller's Office has conducted more than 1,000 fair lending examinations. Out of those examinations, we have made only seven referrals to the Justice Department and three referrals to HUD.

Fact: The revised CRA proposal includes the collection of race and gender data on small business loans from large banks, in part, because some large banks have told us they need this data to conduct self assessments. Without this provision in the CRA proposal, they would be prohibited from collecting this data, even if they chose to do so entirely on their own.

Everyone supports fair and equal access to bank services in principle. But we — all of us here — face the difficult problem of transforming that principle into banking practice. And it is a difficult problem, for banks and for their regulators. Lately, the press seems to want to write stories about disagreements among the bank regulators and between the regulators and the Departments of Justice and Housing and Urban Development. But the real story, I think, is that we all recognize the

need for hard work in this area, that we are all working hard, and that we are making some headway. Despite press reports, despite a certain amount of fearmongering by various industry consultants, I am confident that the government — the bank regulators, the Department of Housing and Urban Development and the Department of Justice — will arrive at a common view of the fair lending laws — a view that is balanced, fair, and comprehensible.

One more point on fair lending — American depository institutions deserve a great deal of credit for the hard work they do every day to comply with fair lending laws. Everyone is subject to the civil rights laws, but no one works harder than America's banks and thrifts to make equal credit opportunity a reality. In all of the turmoil and anxiety that sometimes surrounds the fair lending issue these days, this point too often gets ignored. I have met a lot of bankers who have legitimate questions about how to comply with the fair lending laws. I have yet to meet a single one who questions the laws themselves.

Conclusion

Let me wrap up. The four pillars of Comptroller Ludwig's agenda share a common foundation — our commitment to the continuing vitality of the national banking system. National banks play a critical role in our nation's economy. For well over a century, they have anchored their communities and the national economy. Sensibly regulated, and allowed to evolve into new products and services as market demands warrant, we believe national banks can continue to play these roles for decades to come. We are working hard to make sure that they do.

Remarks by Eugene A. Ludwig, Comptroller of the Currency, before the OCC Small Business Conference, on small business lending, Washington, DC, November 15, 1994

Good morning. I want to welcome you to this conference, "Bank Lending to Small Businesses," the first in a series of conferences the Office of the Comptroller is sponsoring to explore the critical issues in banking today. This first conference is an experiment and — judging from the turnout this morning — the experiment is a success.

From the beginning of my term as Comptroller, I have had four objectives:

To ensure bank safety and soundness.
To promote competition.
To increase the efficiency of bank supervision.
And to assure fair access to financial services for all Americans.

In one way or another, each of these objectives affects bank lending to small business. And we intend to continue to press for these objectives in a way that is supportive of small business.

We fully recognize that small businesses are crucial to the U.S. economy. They create jobs, increase productivity, and promote innovation. This is true both in economically privileged and economically depressed localities. Without question, the health of our economy is intimately tied to the health of small businesses. As you are all well aware, the health of small businesses is intimately tied to access to credit, particularly bank loans. While there are many funding sources for small businesses, banks remain their principal source of credit.

The recession of the late 1980s saw a decline in bank loans to all businesses. This decline was particularly acute for small businesses. In response to these problems, the President announced regulatory and administrative changes directed at improving credit access, particularly for small businesses. Specifically, the bank and thrift regulatory agencies implemented a series of initiatives to reduce regulatory impediments to small business lending, including the low documentation program for small business lending and the imposition of less rigid appraisal standards for real estate, such as real estate securing small business loans.

At the Office of the Comptroller, we believe these initiatives made important contributions to the growth in bank lending that followed the broad economic recovery. The challenge we face today is to shift to a longer-term approach. How can we improve credit services to small businesses? What regulatory reforms or private innovative practices might mitigate the credit problems small businesses face without undermining safety and soundness?

Addressing these questions requires an accurate understanding of the contemporary nature of small businesses, their credit needs and the issues that lenders must tackle when supplying credit to small businesses. That is why we sponsored this conference. Our purpose in drawing you together is to gain a more sophisticated appreciation of the economic characteristics of small firms today; to examine the impact of those characteristics on the lending process; and to learn about different approaches taken to small businesses by banks of various sizes and market niches.

Banks are, of course, only one of many intermediaries that provide credit and other services to borrowers. Different types of borrowers go to different institutions to conduct credit and other kinds of financial transactions. Three important factors help determine where a borrower may decide to seek credit:

First, the amount of readily available, easily verifiable information about the borrower's financial condition and business prospects;

Second, the required amount of post-credit servicing or monitoring of the borrower that the lender must undertake; and

Third, the size of the loan.

For example, lenders are likely to have access to abundant information about large business borrowers, many of which have substantial net worth and market reputation, and may even carry public ratings. Such borrowers will have access to a host of different funding sources, including public debt, public equity, bank loans, or commercial paper.

Smaller businesses are different. Information about small business may be more expensive to obtain. They may have lower net worth. Loans to small businesses often require substantial post-credit monitoring. And small businesses are likely to need relatively small loans. The result is that small business borrowers are likely to have fewer funding sources.

Given the differences between large and small borrowers, why are banks such important lenders for small businesses? Because banks are able to obtain non-public information about the condition and prospects of their borrowers through the relationships they develop and the financial services they provide. This information is not easily duplicated by non-banks. And for that reason, banks have a competitive advantage when it comes to underwriting and monitoring small business loans.

Some borrowers, however, will not be able to obtain bank loans, and will turn to other funding sources, such as finance and factor companies, community development or SBA loans, and even family members.. Some potential borrowers will be unable to obtain credit from any source.

Advancing our understanding of the characteristics of small businesses and small business finance is one of the principal goals for this conference. I anticipate a day of wide-ranging and energetic discussions. I expect these discussions to help close gaps in our knowledge and to identify critical issues for practitioners, regulators and policymakers.

As the day unfolds I ask you to bear in mind two issues we believe are especially germane to the topic of small business credit availability and to research into small business finance and community-based lending.

The first issue arises from the relationship between small business lending and the business cycle. Studies show that in the initial stages of most economic downturns, when business sales and business revenues begin to decline, borrowing by larger businesses actually tends to *increase*, while small business borrowing tends to *decrease*. Given the impact small businesses can have on employment and productivity, this decline in credit flows to small firms can be a significant factor in causing more prolonged and deeper downturns in economic activity.

Some of the reasons for these lending patterns during downturns are obvious: smaller firms tend to have lower net worth, and any decline or uncertainty in earnings makes such loans riskier. Also, if banks see their capital ratios decline, they will become reluctant to make or renew loans. And for their part, small businesses may be reluctant to take on additional debt.

These are economic realities and they reflect sound business judgment. In contemplating public policy proposals, we must accept these realities. However, we should also examine whether there are safe and sound methods of assuring credit availability to small firms even during economic downturns.

The second issue arises from the close connection between small business lending and the revitalization of distressed economic communities. Entrepreneurs in distressed areas are often unable to obtain funding from conventional sources. We are committed to ensuring equal access to bank credit for all Americans and have taken steps to strengthen our ability to ensure credit access for minority small business borrowers. However, we also recognize that lenders face significant economic obstacles in their efforts to create profitable lending opportunities in distressed communities.

One such obstacle is the reality that depressed economic conditions are often accompanied by other problems, such as poor education and crime. Second, success for an individual business depends not only on that borrower's creditworthiness, but on the strength of the local or neighborhood economy in which the small business operates. Third, successful lending in depressed areas requires lenders to develop even greater knowledge about the local market and the individuals in that market.

All these factors suggest that a concentration of loans in one area may have a higher likelihood of success than a single loan in the same area. However, such concentration implies large initial investments that a single lender might be unwilling to make.

There is an interesting parallel between this view of investments in depressed economic communities and the way we think about investments in industrial research and development. Any given R&D project may involve an investment that is too large for a single investor, and there may be insufficient incentives for pioneering research if all the initial costs are absorbed by the pioneer while a broader group will be able to reap the benefits. At the same time, successful investments in R&D can have a very high return and an even higher social payoff.

Similarly, in depressed economic communities, the strategy that might be the most successful may require a large investment, but such an investment may be too risky for any single firm. Furthermore, if the community and the businesses within it prove to be profitable for the lender, other firms may be able to duplicate the results without having incurred the cost of the initial investment. Consequently, there may be a double disincentive to any single firm contemplating investment in businesses in a depressed community. First, is the lender's investment — or the combined investment by the lender and others — large enough to increase the likelihood of success? And second, can the lender count on sufficient returns over time to cover what might be substantial costs of learning about a new geographic area?

Some innovations in community development lending have already begun to take these obstacles into account. The development of loan consortiums, for example, may allow for a much larger initial investment in a community without creating excessive exposure for any single lender. Furthermore, some loans may become more attractive if the lender knows other businesses and other lenders are also committing resources in a given community.

Government should not attempt to decide the amount of credit going to small businesses. The private market must be free to make decisions that appropriately account for risk and uncertainty. However, we can and should ask whether there are ways of improving small business access to credit, particularly during economic downturns, that do not compromise banks' safety and soundness. Can lenders improve their ability to assess credit risk efficiently in order to provide steady access to funds by creditworthy small businesses? Are there unwarranted regulations that impede the flow of credit to small businesses?

These are difficult and complex questions. Finding workable answers begins with a better understanding of the characteristics of small firms and credit flows to small firms. We recognize that there is much to learn and we look forward to hearing the views of our speakers and audience today. But this is just a start. Ours is an ongoing commitment, and we fully expect to continue the discussion with you beyond today and to use what we learn here to clarify and focus our policy efforts.

Again, thank you for coming. I hope this conference marks the beginning of a long and fruitful intellectual exchange.

Remarks by Douglas E. Harris, Senior Deputy Comptroller for Capital Markets, before the Commodity Futures Trading Commission's Financial Products Advisory Committee, on suitability requirements, Washington, DC, November 17, 1994

Over the last year there has at times been substantial misinterpretation as to what the OCC has done in the area of suitability and recently some erroneous reports of what we intend to do. So I certainly welcome the opportunity to appear before this committee and share our thoughts on this issue.

The OCC believes that prudent sales practices are an important element of the successful management by dealer banks of the credit, litigation and reputation risks to which they are exposed in connection with their derivative activities. Accordingly, Section C.1 of Banking Circular 277, which was issued in October of last year and is entitled "Risk Management of Financial Derivatives," specifically requires that, prior to entering into a derivatives transaction with a counterparty, a dealer bank should make an assessment as to whether the particular transaction is consistent with its counterparty's policies and procedures for engaging in derivatives transactions as they know them to be.

I thought it would be helpful to review exactly what Section C.1 requires and contemplates and what it does not. Section C.1 is not a suitability rule. We acknowledge that it comes very close, but there are several ways in which C.1 is distinguishable from the NASD's suitability rule. First and foremost, the motivation behind that particular element of our guidance is not customer protection, but rather ensuring that banks are conducting all of their activities in a safe and sound manner, and with respect to derivatives this means that they understand, monitor, and control the various risks arising out of their activities. In our view, a bank customer that engages in a transaction that is inconsistent with its policies and procedures, that it does not understand or that is otherwise inappropriate for it, poses a credit risk to a bank because that customer may not completely understand its obligations and, therefore, may be unable to anticipate and plan for the risks these obligations entail. If that customer defaults on the transaction, there is a greater potential for litigation and damage to the bank's reputation than might otherwise be the case. The recent suits filed by Gibson Greetings and Procter & Gamble bear this out. (I say this without addressing the merits of either of those two actions.)

In BC 277, we stated that Section C.1 does not require that a dealer bank obtain documents from its customers that it does not already have in its possession. However, we clearly expect that a dealer bank, prudently managing its credit risk, will ask for appropriate internal documents that address the type and structure of transactions that are appropriate for the counterparty, as well as the counterparty's purpose and strategy for engaging in derivatives transactions. Such documents would appear to be absolutely critical in those situations in which a dealer is structuring a particular transaction for a counterparty — almost all transactions other than plain vanilla.

I want to clarify that this obligation with respect to documentary support is separate and distinct from the obligation imposed by Section F of BC 277 in connection with the management of legal risk to obtain those documents necessary to ensure that the counterparty has the power and authority to engage in derivatives transactions — these might include by-laws, a partnership agreement, excerpts from an authorizing statute or regulation, certified copies of board resolutions and the like.

Section C.1 also does not prohibit a dealer bank from engaging in a transaction that it believes may be inappropriate for a particular counterparty based on this assessment. It does require, however, that a dealer bank inform its counterparty that it believes a particular transaction may be inappropriate for it and document the discussions that it has with its counterparty in this regard. (The disclosure of particular or unusual risks associated with the transaction that the counterparty may not have the capacity to understand or control would certainly be an appropriate part of these discussions.)

The decision, then, as to whether to proceed with the transaction is made by the counterparty after having been informed of the dealer's assessment. The documentation requirement is specifically intended as a measure to control litigation risk: Documentation in the dealer's files describing the dealer's assessment and documenting that this assessment was communicated to the counterparty and that the counterparty, nonetheless, decided to proceed with the transaction should be to the dealer's benefit if the counterparty subsequently decides to bring an action against the dealer for loss on the transaction or recovery of payments. In fact, the knowledge that such documentation exists may deter the counterparty from bringing such an action.

The documentation requirement notwithstanding, the OCC expects that a dealer bank will not engage in a transaction with a client that it believes is inappropriate for the client, and we so stated in our series of questions and answers concerning BC 277 (OCC Bulletin 94-31) which we issued this past spring.

At this point, we are talking to the other bank regulators in an attempt to establish a consistent standard with respect to the obligations of dealer banks toward their customers for off-balance sheet derivatives transactions. We are not currently developing a suitability rule that would apply to such transactions. In our view, the imposition of a suitability rule on dealer banks with respect to these transactions would represent a fundamental change in the relationship between a bank and its customers, and would clearly have implications beyond derivatives. These transactions, similar to other bank services and transactions, such as loans, deposits, and letters of credit, are entered into on a principal-to-principal basis. The bank does not act as broker to or agent for the customer; the bank is not selling an obligation (or the equity) of another party to its customer as an asset; the bank is not considered a fiduciary of the customer. Similar to other bank products and services, in off-balance sheet derivative transactions, the bank and/or the customer have ongoing obligations to each other, which may extend for a considerable period of time.

Bank regulators have not imposed a suitability requirement on banks with respect to other bank products and services. For instance, when a bank makes a loan to a customer, bank regulators do not require that, in order to protect the customer, the bank determine that the loan is suitable for the customer. However, bank regulators do expect that, as part of its credit analysis, a bank will determine that the terms of the loan, including the amount, the interest rate and the covenants, are understood by the borrower and that the borrower can in fact repay the loan. This analysis is undertaken in order to protect the assets of the bank, not those of the customer. Failure to perform such an analysis when extending credit would be an indication that the bank is not conducting its activities in a safe and sound manner.

The application of a suitability rule to dealer banks' off-balance sheet derivatives transactions would raise the question of why such a rule should not be applicable to almost all of a bank's transactions with its customers or to all new bank products and services that may be developed in the future. At the OCC, we do not currently believe that it is necessary to make such a fundamental change in the relationships between banks and their customers or, more specifically, in the obligations of banks toward their customers. We will continue to study this issue. If we find that national banks are not following the guidance contained in Section C.1, either to their own detriment or the detriment of their customers, a stronger standard may be required.

At the same time, the OCC, together with the Fed and the FDIC, is currently developing sales practice rules, specifically including a suitability rule, under the authority granted to us by the 1992 amendments to the Government Securities Act. In this case, there is a clear congressional expectation that bank regulators will adopt rules applicable to banks that deal in government securities to protect customers of such banks. Significantly, such a rule would apply to the sale of structured notes issued by government-sponsored enterprises — certain types of which have depreciated substantially in value as interest rates have risen this past year and, as a result, have been the source of losses for a wide variety of financial and other institutions.

Clearly, we are aware of the NASD's proposal to expand its current suitability rule to cover sales of government securities of broker/dealers, and we are aware of the GFOA's criticisms of the proposed rule. Many of those criticisms, specifically as they relate to the applicability of the rule to sales to municipalities, seem to be justified and well-founded. We will be talking to the NASD (and the SEC) as the NASD proceeds, and we will be watching closely the development of the final rule. In this particular case, there seems to be little basis for having a materially different suitability rule applicable to banks than is applicable to broker/dealers. However, we take the congressional intent seriously and we will, therefore, not wait for the finalization of the NASD rule, and its approval by the SEC, before moving forward with the other bank regulators on the development of an appropriate rule for banks. Our hope is that coordination will be such that our rule and the NASD's rule will be substantially similar.

Recently, we have received some direct and indirect criticism from Congress for not moving quickly enough to act on the authority given to us by the Government Securities Act. I would like to respond to that criticism. As I have already said, we do take congressional intent seriously and we are moving ahead. It is also the case, as I mentioned earlier, that over the past year a number of financial and other institutions — money market funds, municipalities, pension plans and, as it was reported yesterday, three banks in the farm credit system — have experienced losses on government-sponsored enterprise structured notes. Of particular importance to us at the OCC, however, was the fact that our examiners were finding a number of instances in which many of our smaller, community banks had in-

vested in certain particularly complex structured securities without a full understanding of the substantial risks — particularly market and liquidity risks — that were inherent in those structures. So from our standpoint, we felt we had to quickly address the problem of bank purchases of certain government securities. We did not find that bank sales of such securities was a substantial problem. In fact, bank sales of such securities have not, for the most part, been implicated in the publicly announced losses that have been suffered by many of these institutions. So, up until this time, we have focused our effort on educating our banks about the risks of some types of structured securities and warning them about the substantial risks of some structures. To that end, this past summer we issued Advisory Letter 94-2, Purchases of Structured Securities.

We still have substantial concerns with respect to bank purchases of structured notes. It is likely that many of these structures will suffer, or have already suffered, additional depreciation as a result of the most recent increase in interest rates. Certainly, purchases of some of these investments will be avoided by imposing suitability rules on both the broker/dealers and banks that sell these securities. But certainly, in the case of sales to banks, we expect that the bank itself has an obligation to ensure that any instrument it is purchasing for investment, or any transaction it is entering into for risk reduction or risk management purposes, is suitable for the bank.

Remarks by Eugene A. Ludwig, Comptroller of the Currency, before the National Community Reinvestment Coalition Southwest Regional Conference, on Community Reinvestment Act reform, Phoenix, Arizona, November 18, 1994

It is always a pleasure to speak to this group, and a pleasure to be in Phoenix. The last time that I was in this part of the country, I visited the Navajo Nation and met with area bankers and representatives from the tribal government. We came together to explore ways that regulators could work with bankers to help meet the credit needs of Native Americans living on reservations. As a result of that visit the OCC has developed, and will soon release, guidelines on mortgage lending to homebuyers living on reservations.

My last visit to the Southwest, not unlike this visit, was an opportunity to meet and talk to people who are committed to bringing about change — change that will benefit our communities and result in economic development and improved access to banking services for everyone. That's what CRA reform is really all about. It's about restoring the intent of the law and placing emphasis on results.

For more than a year, we have been trying to address a multitude of concerns — concerns of bankers, community advocates, and individual citizens — about problems embedded in the current CRA system. President Clinton heard many complaints about CRA — and calls for fundamental change — while campaigning for the White House. We heard many more last year in a series of public hearings we held on CRA around the country.

Bankers in general complained about CRA standards that focused on process and were not applied consistently. They complained about the endless paperwork they had to generate to try to meet those standards. Community representatives — rural as well as urban — complained that this paperwork produced too little of what the law was intended to produce: reinvestment in communities.

This was precisely why Congress passed the Community Reinvestment Act 17 years ago. The idea was to encourage banks to lend throughout their communities, and especially to people who were left outside the banking system — people who lived in declining neighborhoods but who, through hard work, would buy and renovate homes and operate businesses that would bring their neighborhoods back. That is why the process was called "reinvestment" — it was aimed at investing capital *from* the community *in* the community. And community renewal was the dividend it would pay.

However, things did not work out the way they were planned. Although the CRA did much good, it never fulfilled its promise — too often it resulted in sterile paperwork demands on banks rather than fruitful lending to the people who could put it to good use.

Things will soon change. As you know, we are approaching the final phase of the CRA reform process. In a matter of days, the comment period will close on the revised CRA rules that we announced in October. I want to spend a few minutes today discussing with you where we are, how we got here, and where we are going.

After completing the hearings and taking all the witnesses' comments into consideration, we proposed a package of CRA reforms last December that would have substantively reoriented the CRA process. Under the December proposal, a bank's CRA assessment would be based on facts, hard facts, instead of process and paperwork. The proposal placed much more emphasis on indicators of performance — loans granted and investments made and banking services provided.

Following publication of the December proposal, the Comptroller's Office alone received almost 2,000 comment letters — from bankers, from banking trade associations, from community organizations, from state and local government officials, and from members of Congress. Most of the comment letters, including those of NCRC and its affiliated members, were thoughtful and substantive. Your input guided our hands in crafting the revised proposal. In light of those comments, we reworked our rule and issued a revised proposal in October. We modified some of the reporting requirements, altered excessively rigid performance tests, and clarified points that were unintentionally left vague or confusing in December.

We tried to find the synergies that arise when you convert the time spent on useless burden and process into a genuinely productive focus on results. And, we tried to find the balance between reducing regulatory burden on one hand and generating reinvestment on the other. Our dual goals were not mutually incompatible, so we could work toward both simultaneously. We played the game straight down the middle — and we are still playing the game straight down the middle. That is the only way we will achieve both objectives.

I'd like to cover a few ways the revised proposal improves on the proposal we made last December.

As I mentioned, our proposal last December would have placed much more emphasis on measurable indicators of performance — loans and investments made and banking services provided. The focus on process in many of the current 12 assessment factors would have been eliminated. No more would documenting meetings with community groups, assessing board minutes, and evaluating advertising copy count in an examiner's assessment of an institution's CRA performance. Assessments would be based on objective, verifiable data.

The revised proposal essentially retained the principles and structure underlying the December proposal. It is fact based, performance oriented and non-formulaic. But some significant changes in the details were made in order to respond to many of the concerns commenters raised.

Compared to the December proposal, the new proposal is more straightforward; more focused on direct lending while recognizing the importance of services and investments; and more responsive to diversity within the banking industry and among the thousands of communities across the country that CRA reform would benefit.

The proposal is more straightforward in the area of data collection. One purpose of CRA reform was to make the evaluation of an institution's performance more objective. To form realistic judgments and to make informed decisions, our examiners need data.

Our December proposal called on banks to generate substantial amounts of data on their mortgage, consumer and small business lending. Many commenters questioned the need for much of this data, and we took those concerns into account when we streamlined many of the data collection requirements. At the same time, our new proposal reflects the belief — a belief that was voiced by many of you in your comments to the December proposal — that the collection of data on the race and gender of small business borrowers would provide banks, regulators and the public with indicators of how well lenders are complying with fair lending laws in this area. The proposal requires collection of this data while simplifying our data reporting requirements.

Second, our revised proposal strikes a better balance among lending, services, and investments in assessing a bank's CRA performance. It gives primacy to lending — to the extension of credit — as the underlying statute requires. And, for a full-service, retail bank to achieve a satisfactory CRA rating overall, it will have to achieve satisfactory performance in its lending activities — no exceptions.

At the same time, the revised proposal gives substantial weight to services and investment. And, it reflects greater recognition of the importance of all kinds of lending to low- and moderate-income individuals and neighborhoods: community development lending, co-lending, consortium lending and bank partnerships with non-profits for counseling and marketing services.

The third area of improvement over the December proposal is — again — that the new proposal is even more responsive to diversity within the banking industry and in communities. The new proposal considerably expands the range of quantitative and qualitative criteria to measure performance. We've also been diligently working — behind the scenes — on thorough and detailed examiner guidelines for CRA compliance. These guidelines will be adopted on an interagency basis to guarantee consistency among regulators in the CRA evaluation process.

We are also enhancing our training programs for compliance examiners. I'm certain you will agree with me that training programs and examination guidelines will benefit communities as well as the industry. They are vital to ensuring that examiners exercise sound, reasoned judgment in conducting CRA evaluations. That is not to say that the examiner's decisions would be based entirely, or even predominantly, on subjective judgment. Far from it. Decisions would have to be based on performance, which would have to be assessed by objective criteria. The number of criteria, however, would be expanded and the types of criteria would be broadened. Analysis of a bank's share of low- and moderate-income markets, which I know you support, would be used where appropriate.

In this way, the new proposal seeks to find the proper balance between objective analysis and subjective judgment as an examiner takes into account the characteristics of each individual institution and the community it serves. And the public would be better able to assess the accuracy of a bank's CRA rating because the data on which the rating is based would be public.

We also have to recognize that — in every way — technology is diversifying the ways we conduct every day tasks. Our new proposal recognizes this diversity in its treatment of bank branches in assessing an institution's services to the community. Without doubt, brick-and-mortar branches will continue to be an important delivery medium for banking services. But in the past we have assumed that the existence of branches was evidence that needs were being met. Our new proposal reflects the reality that banks today use means other than brick-and-mortar to deliver services. And it recognizes that the mere presence of a brick-and-mortar branch does not necessarily mean

that an institution is meeting a need. The regulators must consider the actual services that such a branch provides.

In recognizing diversity, we've maintained several assessment options for different types of institutions, and we've clarified the strategic plan option to make it clear that community input is a mandatory part of the process. In direct reponse to your suggestions, we added a new community development test under which wholesale and limited purpose banks would be evaluated.

Institutions operating in multiple service areas would be obligated to help meet credit needs in each of those service areas. The service test would consider a range of services, including branch location, branch closings, services offered at branches, and community development services.

The lending test would evaluate banks on results — results making loans throughout the entire service area and using innovative and flexible lending practices.

The investment test would assess banks' investment in projects or organizations that promote community development or affordable housing, or that benefit low- and moderate-income individuals or small businesses. This test would include investments in organizations such as community development financial institutions, small business or specialized small business investment companies, as well as certain housing bonds and low income housing tax credit projects.

I think we all agree that community reinvestment works best when everyone works together. So, public participation — and community group participation — is still a critical element of the CRA process. We will begin publishing advance notification of the CRA exams scheduled each calendar quarter. And the CRA public file at each institution will include more information. The proposal retains all of the public disclosure provisions outlined in the December proposal, and requires that the public CRA file include a map identifying the institution's services area, a list of branches and ATMs in its service area, and a list of services provided at each location. For all banks, the file would include public comments on the bank's CRA performance and the bank's response to the comments, as well as the bank's most recent CRA evaluation.

For large banks, the public file would also include a list of geographies where the bank had at least one loan outstanding loan to a small business or small farm, and aggregate data on these loans, including certain race and gender data. For small banks, the public file would include the loan-to-deposit ratio as of the end of the previous year.

For all banks that file HMDA reports, the public file would include HMDA Disclosure Statements for the previous two years. For banks that chose to be evaluated under a strategic plan, the public file would include a copy of that plan. If a bank received a "Less Than Satisfactory" rating, its public file would have to include a description of its efforts to improve its CRA performance.

Banking regulators understand how important credit and access to banking services are to the well-being and the advancement of all Americans. And we understand how necessary credit is to revitalizing our cities and poor rural areas. We recognize that we have to encourage genuine economic development if we are to solve the problems of unemployment, poverty and crime. But no one should expect banks to solve all of America's urban and rural problems — and even if someone did expect it, banks do not have anywhere near the resources to do so.

What banks can do is this: banks can do business where they may not be doing business now. Banks can look for customers whom they may now overlook. Banks can make more of an effort to recognize that a person's net worth can be measured in purpose and ambition as well in the dollars and cents of ready collateral.

The overarching purpose of the Community Reinvestment Act is to encourage banks to do what they can do, consistent with safe and sound operation. The federal government can often act as a catalyst to bring about desired change through the adoption of initiatives that empower communities to solve their problems themselves and by getting the private sector involved in addressing economic needs.

Getting the private sector involved is a goal shared by regulators and by community groups. Together we can seek to get banks to maximize their efforts to meet their obligations under the CRA. And together, we can encourage banks to explore new markets that they could help serve, and new ways to better serve existing markets.

I've learned a great deal from the CRA reform process. Throughout the process I've heard many voices, but only one message: For the good of our communities, we must — and we will — bring meaning to the implementation and enforcement of CRA.

Many of you may have some concerns about how the recent election and the change in political control of Congress will affect the CRA. There is no question that the political climate in Washington has changed dramatically. There is likely to be less congressional

support for some of the elements in the revised proposal.

Nonetheless, it's important to remember that the demand for CRA reform — from both bankers and community groups — has been consistent in both Republican and Democratic Administrations. We began this process of reform in July 1993 — more than 16 months ago — and we have learned a great deal in the process. But now it's time we brought it to a close. Once the comment period closes, we will work to move as swiftly as possible to completing a final rule and drafting examination procedures to implement the rule.

There are many ways that we can all work towards improving reinvestment in American communities. Our partnership is more vital now than ever. That is why I am so glad to be here to address you today. This conference is an excellent example of the type of dialogue among regulators, banks and communities that is essential to successful community reinvestment. We have to talk to each other. We have to listen to each other.

So, I hope that each of you has commented on the revised CRA proposal, or will do so right away. The comment period closes on Monday, and so far we've received fewer than 175 comments. We rely — I rely — on the comments to tell us where we have gone off track, or where we could do a better job. We also want to hear if we have gotten things right. We will need positive reinforcement, as well as constructive criticism, when we write the final package of reforms.

As you know, before we made a single decision on proposing reform, we turned to you, to bankers and to the public for direction.

Remarks by Eugene A. Ludwig, Comptroller of the Currency, before the OCC Conference on Systemic Risk, on rethinking systemic risk, Washington, DC, December 2, 1994

I want to join with others here today to welcome you to the OCC's conference on Banking, Financial Markets, and Systemic Risk. This is the second in a series of conferences we are sponsoring on significant economic issues that affect banking, bank regulation, and to a great extent, the entire economy.

If economics is the dismal science, as Malthus said, on the face of it, the topic of this conference may be among the most dismal. Failure to address this issue in a thoughtful and fact-based manner has very serious costs for our financial system and our economy.

Happily, an abundance of excellent scholarship over the past two decades gives us a better basis for identifying and dealing with systemic risk. In particular, as I will discuss in greater detail later, recent academic research has called into question some of the most cherished beliefs of regulators concerning the fundamental importance of systemic risk as a justification for detailed regulation of depository institutions. It is important that, as policy makers concerned with systemic risk, we be familiar with this scholarship and use it to guide our actions. That, of course, is the purpose of this conference. So it is particularly gratifying to have so many important academics and policy makers here to participate in these proceedings.

Systemic risk has been a central concern for me from the day I was nominated almost two years ago. At that time, I laid out four goals that have since become the pillars of my agenda for my term as Comptroller:

- First, to ensure the safety and soundness of the national banking system.
- Second, to promote banks' ability to compete.
- Third, to improve the efficiency and effectiveness of OCC supervision.
- And finally, to ensure fair and equal access to financial services for all Americans.

It should be clear that understanding, identifying, and planning for systemic risk are central to achieving all four goals. I am committed to increasing safety and soundness and to lowering risk to our financial systems. Careful and thoughtful analysis incorporating the finest scholarship, such as we see here today, is necessarily helpful in that endeavor.

Defining Systemic Risk

Regrettably, there is no clear agreement on what constitutes systemic risk, how it manifests itself, or even the extent to which regulators ought to be concerned about it. The phrase "systemic risk" means different things to different people. Congress, bank supervisors, and economists all struggle over the basic nature and quantitative significance of this shadowy concept. Indeed, one important result of this conference may be to further the process of de-mystifying systemic risk.

That would be a significant result, because the need to minimize systemic risk is often cited as a key reason for banking regulation. In many respects, it becomes the rationale that cannot be denied. Why have the regulators taken a particular action? To minimize systemic risk, they may say. And how exactly will this particular action minimize systemic risk? The answer to that question is often wrapped in obscurity.

For purposes of my remarks here today, I would like to adopt the provisional definition of systemic risk used in this morning's presentation by Phil Bartholomew and Gary Whalen. That is, systemic risk is characterized by "a sudden, usually unexpected, collapse of confidence in a significant portion of the financial system with potentially large real economic impacts."

Traditional Views of Systemic Risk

For many years, systemic risk has come to be associated with the fallout from bank failures. The conventional wisdom has held that the social costs associated with the failure — or, more precisely, the liquidation — of a very large bank, or a large number of smaller banks, would be prohibitive. Therefore, such occurrences ought to be prevented at all costs. Indeed, the following scenario — what I will call the specter of the 1930s — has become one of the most familiar ghosts to haunt many of us in the business of regulating banks.

Here's the scenario. The failure of a large institution or a number of smaller institutions results in losses to uninsured depositors and/or other institutions holding balances at the failed banks. Seeing this, and lacking the information to judge whether their own institutions are solvent, uninsured depositors at other banks withdraw their deposits as a protective measure — the phenomenon of contagion. With their reserves greatly reduced, the affected banks stop making new loans

and liquidate securities. Fearing additional runs, still more banks cut back on their lending in order to build up their excess reserves.

The end results are a general credit stringency, a shrinkage of the money supply, a decline in economic activity, increased defaults on loans, and further bank failures. Just how bad conditions ultimately become in this scenario depends on your assumptions about the behavior of regulators, how well the central bank fulfills its role as lender of last resort, and a host of other variables. In every case, however, the general picture is one of a financial system seriously disrupted, with adverse effects extending far beyond the shareholders, depositors, and creditors of the original failing bank.

This specter of the 1930s has for some time permeated the structure of bank regulation. Now, no one who lived through the collapse of the banking system between 1929 and 1933 and the accompanying economic upheavals would welcome a repetition of those events. At the same time, we should not forget that the terrible dimensions of that debacle were the result, at least in large part, of a combination of external events and policy errors that need not be repeated.

These include the government's failure to replenish the reserves of the banking system depleted by runs, the widespread tendency among regulators to approach the banking crisis as just retribution for bankers' sins in the 1920s, the onset of depression in Europe after the failure of the Credit Anstalt in Austria, and the passage of the Smoot-Hawley Act in 1930. The short-run effects of all these developments were magnified by the fact that they occurred in a world without deposit insurance. If even one or two of the major policy errors were avoided in a future banking crisis, one could reasonably argue that the outcome in terms of damage to the system would be considerably milder.

I do not intend in any way to minimize the potential seriousness of systemic risk stemming from bank failures. Quite the contrary — it is my firm belief that we need to face up to the full range of possibilities now, when there is relative calm in the banking industry, and to plan for a wide range of contingencies. Now is the time to confront the ghost of the 1930s and finally lay it to rest. By doing so, we can avoid the ad hoc policy approach that too often has characterized the regulators' actions during times of crisis.

Increased Competition

In some respects, Congress and the bank regulators have already begun to take actions to dispel this ghost. The system of bank regulation built up in the aftermath of the Depression was designed to protect depository institutions and limit competition. But in the 1970s and early 1980s, Congress and the bank regulators took several steps toward dismantling this system. Restrictions on bank competition — most notably, restrictions on deposit interest rates — were relaxed and then eliminated altogether. Within a relatively short time, banks and thrifts pushed into more competitive markets.

Unfortunately, in beginning to remove competitive restrictions on depository institutions, the government failed to provide for minimizing the costs of a higher rate of bank failures. Of course, higher failure rates were inevitable. It is axiomatic in economic analysis that more competitive markets mean lower profits and a higher incidence of failure. The costs of bank failures were addressed, albeit somewhat belatedly and perhaps somewhat imperfectly, when Congress enacted the Financial Institutions Recovery, Reform and Enforcement Act in 1989 and the FDIC Improvement Act in 1991. In the case of FDICIA, Congress consciously tried to limit the costs of bank failures by systematizing the process of exit from the banking industry.

Biases in the Perception of Systemic Risk

One of the difficulties in carrying on a rational public debate about competition and systemic risk in the banking system stems from the widely varying ways in which the public experiences the benefits of competition and the costs of bank failures. A banking crisis like that of the 1920s and 1930s is an extremely visible event, announced by headlines and followed continuously by the press as long as it lasts. If accompanied by a depression in real economic activity — regardless of whether it is the cause or the effect — the crisis may also be associated in the public mind with tangible, personal economic harm.

It is scarcely surprising, then, that both the general public and its representatives in Congress often judge regulators by their success in limiting systemic risk. In the minds of the great majority who do not attend conferences like this one, limiting systemic risk means limiting bank failures.

By contrast, the benefits of enhanced competition and efficiency take the form of small reductions in price or improvements in the quality and variety of banking services over an extended period of time. It may require sophisticated econometric techniques to measure the benefits from particular liberalizations of regulations or changes in market structure. In these circumstances, the typical consumer of financial services may have trouble believing that there really are such benefits.

The reaction to the banking and thrift crises of the 1980s gave ample evidence of how the public viewed the

costs and benefits of banking competition. At the first sign of trouble, many critics of the recent course of banking regulation were ready to repeal the full array of deregulatory measures — measures adopted only after decades of research and political infighting. It is discouraging that many critics did not adequately, to my mind, consider other obvious explanations for the crisis, such as mispriced deposit insurance, the indiscriminate capital forbearance practiced in the thrift industry, or the risk concentrations in loan portfolios encouraged by branching restrictions.

New Research on Systemic Risk

Fortunately, virtually every misconception regarding risk in the banking system that I have cataloged to this point has been the subject of intense academic research over the past two or three decades. In many cases, this research has discredited popular fallacies accepted as unquestioned truth for more than 50 years.

Skepticism toward traditional views of bank regulation dates back at least to the 1950s, to the work of David Alhadeff, a pioneer in applying the industrial organization approach to the financial sector. Alhadeff questioned the prevailing view, expressed by one well-known regulatory official, Howard Crosse, that "a bank failure is a community disaster whenever and wherever it occurs." He noted that the failure of the sole local manufacturing firm might be a more serious problem for many one-employer towns than the failure of the local bank — a view stated independently at about the same time by former OCC economist and FDIC Research Director Paul Horvitz. Alhadeff called for a reassessment of policy toward entry of new banks into the banking system.

Shortly thereafter, in a little-heralded article that is still well worth reading, Dale Tussing of Syracuse University made the fundamental distinction — albeit without using the term — between systemic risk on the one hand and the risk of individual bank failure on the other. He noted that there are two key linkages that justify "the long-standing policy of avoiding bank failure": the linkage "between the failure of an unsound and/or poorly managed bank and the failure of other banks," and the linkage between a bank failure and its effects on "depositors, borrowers, and third parties." Tussing argued that public policy could permit increased competition and freedom of judgment in banking — even when it led to increased bank failures — if a system could be devised to break these two linkages. Many of the proposals for supervisory and regulatory reform advanced in recent years, including the prompt corrective action provisions of FDICIA, seek to do precisely that.

Another important example of academic research that has discredited fallacies about systemic risk is the chapter on "The Great Recession" in Friedman and Schwartz's *Monetary History of the United States from 1867 to 1960*. Their work probably has done more than any other research to call into question prevailing views regarding the relationship between the banking collapse and the Great Depression, as well as the connection between individual bank management, the behavior of the bank regulators, and bank failures.

Citing evidence that there had been no observable deterioration in banks' *ex ante* credit standards in the 1920s, Friedman and Schwartz argued that the banking collapse was much more a consequence of faulty regulatory policy and an inadvertently tight monetary policy than of any tendency toward excessive risk-taking by banks. Research in the early and mid-1960s largely laid to rest the notion that excessive competition for deposits had led to excessive risk-taking by banks and large numbers of bank failures in the early 1930s. It's worth noting, however, that, as late as 1966, Congress was still trying to limit competition by depository institutions when it extended interest rate ceilings on deposits to cover savings and loan associations as well as banks.

Finally, one of the most exciting developments in banking research in the past decade has been the reexamination of U.S. banking history in the 19th century using modern finance theory and current statistical techniques. The picture that emerges calls for revision of many of the impressions conveyed by traditional histories of U.S. banking and by many current texts on money and banking. Among the findings that are most relevant to our present concern with systemic risk are those that relate to the resilience and rationality of financial markets. The traditional view of banking panics in the 19th century has emphasized the susceptibility of markets to irrational behavior — for example, the notion that the flimsiest rumor often motivated depositors to run on a bank. Without totally dismissing that idea as a logical possibility, George Benston and George Kaufman concluded in a recent survey of the historical evidence that depositors, far from being indiscriminate in their behavior, "run on particular banks for specific, well-documented reasons...."

Edward Kane had reached a similar conclusion several years earlier with respect to the runs that occurred in 1985 on institutions insured by the Ohio Deposit Guarantee Fund. Equally or more important, the historical evidence calls into question the notion that banking markets are fragile, contrary to the repeated assertions of a number of highly regarded scholars over the past several decades.

Obstacles to Incorporating Research into Regulatory Practice

Although many questions regarding the nature, significance, and policy implications of systemic risk remain unanswered, researchers have made substantial progress toward understanding this phenomenon, whose prevention or minimization many view as the major goal of banking regulation. One consequence of this progress is the emergence of a gap between current bank supervision practice and the body of thought on policy toward systemic risk widely accepted by the academic community. This gap is most evident in the agencies' continued reliance on detailed supervision of bank product offerings and lending policies and the examination process to control bank risk-taking — an approach that has been supported in large measure by Congress. Witness recent legislative proposals on derivatives.

There are at least three important reasons why practice tends to lag behind academic research in the area of banking regulation. First, there is an understandable skepticism on the part of those responsible for formulating and implementing regulatory policy toward ideas that they view as radical and untested — particularly when they are the ones hauled before congressional committees to explain why a large bank has failed. Second, there has not been enough time for state-of-the-art academic research to be verified by professional peer groups and to become widely known to the regulatory community. And finally, to date, academics have failed to provide reasonably accurate and reliable estimates of the magnitudes of the probabilities of events and the associated costs and benefits under alternative regulatory approaches.

Nonetheless, there are surely many areas of banking regulation and supervision where we can work to narrow the gap between current academic thought and regulatory practice in ways that will reduce systemic risk and increase the effectiveness of our financial system.

Conclusion

What this all boils down to is a number of specific findings that fly in the face of traditional regulatory thought. Specifically, systemic risk caused by bank failures appears to be less common than generally supposed. The occasions on which it has been associated with serious economic effects were also marked by major policy errors. Bank runs are typically motivated by accurate information about the condition of particular banks — not by rumors or general uncertainty following bank failures. Contagion has been both rare and, generally, highly localized. Financial markets are less fragile than many of us had been led to believe, and runs and failures can be a source of long-run discipline on bank risk-taking.

Please don't misunderstand me. I am *not* saying that we should not be concerned about bank individual failures. Believe me, bank failures do concern me and our agency a very great deal indeed. What I am saying is this: isolated bank failures do not appear necessarily to generate the kind of systemic risk about which bank supervisors have traditionally been concerned. And, if that is the case, we need to gain a better understanding of the ways in which banks are tied to each other and to the banking system as a whole in order to identify the real risks that can affect the entire banking system.

We may also need a better understanding of the interrelationships between banks and the broader financial markets. For example, how are banks affected by events in the insurance industry? Conversely, how do events in the insurance industry affect banks? What about events in the commodities industry or the securities market or the bond market? Do we need a broader approach to limiting systemic risk for banks — one that embraces the entire financial industry?

These are questions to which bank supervisors do not have answers today, but to which they will need answers in the not-too-far-distant future. As banks gain more freedom to compete in a broader range of activities, we and they must understand how these activities will affect not only individual institutions but the entire financial market and the economy as a whole. Only then can we be certain that bank supervision is effective in minimizing systemic risk. Only then can we be certain that bank supervision truly serves the public interest.

Interpretations—October 1 to December 31, 1994

652—October 1994

Carl Howard, Esquire
Associate General Counsel
Citibank, N.A.
425 Park Avenue
New York, New York 10043

Re: Citibank, N.A., New York, New York, Citicorp, USA, Inc., and Citicorp Real Estate, Inc.

Dear Mr. Howard:

This letter will inform you that the Office of the Comptroller of the Currency has determined that national banks and their operating subsidiaries may enter into equity swaps and equity index swaps ("equity derivative swaps"), consistent with the National Bank Act and the Glass-Steagall Act. When engaging in swap activities, banks should be mindful of the requirements for exemption from CFTC regulation.

By notification dated January 7, 1992, Citibank, N.A., sought authority from the OCC to offer swaps and swaps-related derivative products directly through two of its wholly-owned operating subsidiaries, Citicorp USA, Inc., and Citicorp Real Estate, Inc. ("Operating Subsidiaries"). On February 10, 1992, Citibank, N.A. clarified that it sought the authority to enter into cash-settled swaps on commodities and instruments that national banks are not permitted to buy and sell for their own account, including equity derivative swaps. On May 13, 1992, the OCC approved the Operating Subsidiaries' engaging in legally permissible swap and related hedging activities. Although the approval did not specifically address equity derivative swaps, those activities are permissible, for the reasons discussed below.

Background

Equity derivative swap contracts are notional principal contracts which provide for equity based bilateral payments. Notional principal contracts ("NPCs") are financial instruments under which one party, in exchange for a specified consideration, makes payments to the counterparty at designated intervals. The amount of the payment made to the counterparty is calculated by reference to a specified index and is based upon a notional principal investment in that index. With the exception of certain currency swaps, the parties to a NPC never exchange the notional investment amount. Rather, the notional investment is used only as a reference for determining the amount of payments to be transferred. Other NPCs include commodity price index swaps, interest rate swaps, and currency swaps. *See Tax-Exempt Entities, Notional Principal Contracts, and the Unrelated Business Income Tax*, 105 Harv. L. Rev. 1265, (1992) (*"Notional Principal Contracts"*).

The parties to an equity derivative swap contract agree to make payments to one another based on an increase or decrease in the value of a notional principal investment in a particular equity or equity index. One party (the "short") agrees to make periodic payments to the counterparty (the "long") if there is an increase in the value of the notional principal investment. The short also agrees to pay the long amounts equal to dividends on the equity or equity index. The long agrees to make periodic payments to the short based on a specified floating rate of interest[1] applied to the same notional principal investment. In addition, the long agrees to make payments to the short if there is any decrease in the value of the notional investment in the equity or index. *See Notional Principal Contracts* at 1269; *Equity Derivative Products: Financial Innovation's Newest Challenge to the Tax System;* 69 Tex. L. Rev. 1319, 1331 (1991) (*"Equity Derivative Products"*). The notional principal investment under an equity derivative swap is adjusted each period to reflect changes in the value of the underlying equity or equity index. This adjustment resembles a sale of the equity/equities and its/their repurchase at market value. This hypothetical sale and repurchase affects the amount of cash deemed invested in the equity derivatives swap. *See Equity Derivative Products* at 1331 n.40. Cash flows are netted and settled in cash. There is no physical delivery of the securities underlying an equity derivative swap.

National banks sometimes enter into equity derivative swap contracts with shorts and longs and enter into separate but offsetting contracts. In essence, this results in payments being transferred between the shorts and the longs by the intermediary bank. At times, however, banks may hedge swaps exposure by acquiring or selling non-swap financial derivative instruments, such as exchange-traded futures or options. The hedging transaction serves the same purpose as offsetting contracts between shorts and longs, to counteract the risk associated with the initial swap.

Equity derivative swap contracts do not connote ownership of the underlying equity securities. In fact, interests in equity derivative swap contracts are distinguishable from the actual ownership of equity securities in several ways. First, parties to equity de-

[1]For example, a rate may be based on the London Interbank Offered Rate ("Libor") which is the rate that major international banks charge each other for large loans of dollars outside of the United States

rivative swaps do not acquire voting or management rights, which generally is associated with equity ownership. Second, equity owners receive dividends if declared by boards of directors when funds are legally available, whereas dividend payments under equity derivative swaps are governed by the terms of the contract. Third, a party to an equity derivative swap may not dispose of the securities underlying the equity derivative swap as an actual owner of securities can. Finally, the risks vary. Owners of equities are exposed *directly* to the market risks of holding of corporate stock. On the other hand, parties to an equity derivative swap are exposed *indirectly* to the market risks of the corporate stock underlying the equity derivative swap and *directly* to the credit quality of the counterparty. *See Equity Derivative Products* at 1332, 1333; *Notional Principal Contracts* at 1269, 1270.

Discussion

In our opinion, national banks and their operating subsidiaries may enter into equity derivative swaps contracts, consistent with the National Bank Act and the Glass-Steagall Act. The OCC expresses no-objection to national banks or their operating subsidiaries engaging in these activities, consistent with safe and sound banking practices. When engaging in swap activities, banks should also be mindful of the requirements for exemption from CFTC regulation.

National Bank Act

The National Bank Act provides authority for national banks to engage in equity derivatives swaps transactions. Twelve U.S.C. 24(Seventh) grants national banks the express power to receive deposits and loan money on personal security. In addition, Section 24(Seventh) authorizes national banks to "exercise . . . all such incidental powers as shall be necessary to carry on the business of banking" including the exercise of those powers set forth as "express powers." It is well established in OCC precedent that funds intermediation is incidental to a bank's express power to engage in deposit and lending activities authorized for national banks under Section 24(Seventh). No-Objection Letter No. 87-5 (July 20, 1977) *reprinted in* [1988-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 84,034 (the "Matched Swaps Letter").

A bank engaging in equity derivative swap activities is essentially engaging in activities which have been approved for national banks in other forms. The OCC has previously issued no-objection letters permitting national banks to engage in matched and unmatched commodity price index swaps ("CPIS"), since these activities are incidental to the express power of national banks to receive deposits and make loans, and to the business of banking.[2] *See* Matched Swaps Letter; No-Objection Letter No. 90-1 (February 16, 1990) *reprinted in* [1989-90 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,095 (the "Unmatched Swaps Letter"). Equity derivative swaps, like CPIS, are incidental to the express power of national banks to receive deposits, make loans, and to the business of banking.

CPIS contracts and equity derivative swap contracts involve payments that are analogous to those made and received in connection with a national bank's express powers to accept deposits and loan money. The contracts require a bank to pay money to a party depending on the rise or fall in the price of a particular equity or commodity or equity index. Like a deposit that bears interest, the customer's receipt of swap payments constitutes the receipt of income for the hypothetical use of customer monies. Like debtors on bank loans, parties to swap contracts are also required to provide money to the bank based upon agreed fluctuations in the price of the relevant equity or index. If there is a default in payments to the bank, the obligation remains, similar to a loan. Moreover, in a default, the bank may be required to advance payments to honor the defaulting party's obligation, akin to an extension of credit for the benefit of the defaulting party.

National banks have the authority to establish the amount of the payments to be made and received under their deposit and loan contracts based on market conditions and the needs of their customers. *See* Unmatched Swaps Letter; Letter from Horace G. Sneed, Senior Attorney, Legal Advisory Services Division (March 2, 1992) (Unpublished) (the "Swaps Warehousing Letter"); *Decision of the Office of the Comptroller of the Currency on the Request by Chase Manhattan Bank, N.A., to Offer the Chase Market Index Investment Deposit Account, ("MII Deposit Decision").* Similarly, national banks may use the price fluctuations in an equity or equity index to calculate payments based on notional investments in the equity or equity index as an exercise of their authority to accept deposits and make loans. The OCC permitted national banks to use price fluctuations on commodity indices to calculate payments under CPIS contracts because the payments were of the same type made and received in connection with deposit and loan contracts. *See* Unmatched Swaps Letter; Swaps Warehousing Letter. In the *MII Deposit Decision*, the OCC permitted a national bank to use a deposit account paying interest based in part

[2]Payments made under CPIS, like equity index swaps, are dependent upon the rise and fall of a notional investment in a particular index. Equity swaps are based on a notional investment in a particular item (an equity).

on movements in the S&P 500 index, as an activity related to its deposit-taking authority.

Equity derivative swap contracts, like CPIS contracts, are also incidental to the business of banking as a form of funds intermediation. *See* Matched Swaps Letter; Unmatched Swaps Letter. In an equity derivatives swap contract the bank acts as a financial intermediary between customers who want to manage financial risks resulting from the variations in the particular equity or equity index. In such arrangements, customers do not deal directly with one another, but instead deal directly with the intermediary. National banks are natural intermediaries in the swaps market because they are accustomed to assuming the credit risk involved in customer exposure to price movements. Swaps are natural risk management tools for bank customers. Banks are uniquely able to analyze credit risk and find an appropriate counterparty for the equity derivatives swap transaction.

Just as the OCC has noted with respect to CPIS, national banks can minimize the risks associated with equity derivative swaps either by structuring the terms of the equity derivative swap or through hedging. For example, banks can require a cap and a floor to price variations that they may assume on a particular equity or equity index in swap contracts. *See* Unmatched Swaps Letter. Consequently, even if the value of the equity or equity index fluctuated beyond expectation, payments due pursuant to the contract would never exceed the amount that would be calculated at the cap or floor. Alternatively, banks may hedge any unmatched equity or equity index risk by purchasing and selling exchange-traded futures and options, government securities or forward contracts. *See An Examiner's Guide to Investment Products and Practices,* (December 1992) pp. 82-98 (*"Examiner's Guide"*). Banks can also warehouse and hedge equity derivative swaps on a portfolio basis. Where banks warehouse equity derivative swaps, they may use futures contracts, options and similar over-the-counter instruments which are settled in cash to hedge the aggregate unmatched position in the portfolio. *See An Examiner's Guide* at p. 89; Swaps Warehousing Letter.

Glass Steagall Act

Another issue which arises in the context of banks participating in equity derivative swap contracts is whether these activities violate Section 16 of the Glass-Steagall Act. 12 U.S.C. 24(Seventh). Section 16 prohibits national banks from purchasing and selling certain securities for their own account. *Id. See* Section 203.1 of the *Comptroller's Handbook for National Bank Examiners; An Examiner's Guide* at pp. 18-20. The Section 16 prohibitions, however, do not preclude national banks from entering into equity derivative swap contracts because these activities are authorized by the National Bank Act.

As discussed in the *MII Deposit Decision,* national banks may engage in transactions where they are not permitted to own the underlying instruments if such activities are permissible under the National Bank Act. The OCC has allowed national banks to engage in a variety of transactions, including futures trading and CPIS contracts, where the banks would not have been permitted to buy and sell the underlying instruments for their own account. *See MII Deposit Decision;* Matched Swaps Letter. In the Matched Swaps Letter, even though the bank was not authorized to trade in the underlying commodities, the bank was able to engage in CPIS as an activity authorized under the National Bank Act. These same principles are applicable to equity derivative based swap activities. Since national banks are exercising those statutory powers related to deposit taking, lending and funds intermediation when engaging in equity derivative swap activities, the prohibitions of Glass-Steagall are inapplicable. *See Securities Industry Association v. Board of Governors of the Federal Reserve System,* 468 U.S. 137, 158-9 (1984); *Board of Governors of the Federal Reserve System v. Investment Company Institute,* 450 U.S. 46, 62-63 (1981).

Safety and Soundness Considerations

As with any activity conducted by a bank, equity derivative swaps must not be entered into for speculative purposes and must be carried out in accordance with safe and sound banking principles. At a minimum, this means that a bank should observe the guidelines in Banking Circular 277 ("BC-277"). BC-277 sets forth guidelines representing prudent practices that national banks should follow to conduct financial derivatives activities in a safe and sound manner. Specifically, BC-277 guidelines address senior management and board oversight, market risk management, credit risk management, liquidity risk management, operations and systems risk management, legal issues, and capital adequacy. Until definitive accounting guidance for financial derivatives instruments is issued, Citibank, N.A. and the Operating Subsidiaries should review accounting practices and documentation to insure consistency with strategies and objectives approved by the Board of Directors.

Operating Subsidiary Activities

Citibank, N.A., and its wholly-owned Operating Subsidiaries may offer equity derivative swaps. National banks may engage in activities which are part of or incidental to banking by means of an operating subsidiary. 12 CFR

5.34(c). Since engaging in equity derivative swaps is a permissible activity for national banks, the activity is similarly permissible for their operating subsidiaries.

Commodity Futures Trading Commission's Regulation

The Commodities Futures Trading Commission ("CFTC") has exempted swaps meeting certain criteria from CFTC regulation. These criteria were set forth in a July 1989, Policy Statement ("Policy Statement") and, more recently, 17 CFR 35 ("Part 35"). When Part 35 was issued as a final rule, no steps were taken to rescind the CFTC's 1989 Policy Statement addressing swaps. Rather, Part 35 was published in the *Federal Register* with a note that swap market participants could continue to rely on the Policy Statement for existing and new swap agreements, including securities-based swaps. *See* 58 Fed. Reg. 5,587. Thus, provided that equity derivative swaps meet the terms of the Policy Statement or Part 35, these contracts are not subject to regulation by the CFTC. The OCC recommends that national bank counsel review the Policy Statement and Part 35 with respect to their particular equity derivatives contracts to determine whether they are exempted from CFTC regulation.

Conclusion

For the reasons discussed above and subject to the limitations herein, Citibank, N.A. and its two wholly-owned Operating Subsidiaries' may continue to offer equity derivative swaps, where consistent with safe and sound banking principles. The OCC advises bank counsel to review equity derivatives swap programs to ensure they are consistent with the exemptive criteria set forth in the CFTC's Policy Statement or Part 35.

Douglas E. Harris
Senior Deputy Comptroller
for Capital Markets

Mergers — October 1 to December 31, 1994

Mergers consummated involving two or more nonaffiliated operating national banks

Mergers consummated involving nonaffiliated national banks and savings and loan associations

Mergers consummated involving two or more affiliated operating banks

Most transactions in this section do not have accompanying decisions. In those cases, the OCC reviewed the competitive effects of the proposals by using its standard procedures for determining whether the transaction has minimal or no adverse competitive effects. The OCC found the proposals satisfied its criteria for transactions that clearly had no or minimal adverse competitive effects. In addition, the Attorney General either filed no report on the proposed transaction or found that the proposal would not have a significantly adverse effect on competition.

* * *

Nonaffiliated Mergers*

NATIONAL BANK OF THE REDWOODS, Santa Rosa, California, and Codding Bank, Rohnert Park, California

Names of institutions and type of transaction	*Total assets*
National Bank of the Redwoods, Santa Rosa, California (18541), with	$156,944,000
and Codding Bank, Rohnert Park, California, with	50,449,000
merged November 4, 1994, under charter and title of the former. The merged bank at date of merger had	202,337,000

* * *

SOUTHWEST GEORGIA BANK, NATIONAL ASSOCIATION, Moultrie, Georgia, and Baker County Bank, Newton, Georgia

Names of institutions and type of transaction	*Total assets*
Southwest Georgia Bank, National Association, Moultrie, Georgia (13161), with	$188,635,000
and Baker County Bank, Newton, Georgia, with	16,251,000
merged December 2, 1994, under charter and title of the former. The merged bank at date of merger had	202,192,000

* * *

FIRST MID-ILLINOIS BANK AND TRUST, NATIONAL ASSOCIATION, Mattoon, Illinois, and Downstate National Bank, Altamont, Illinois

Names of institutions and type of transaction	*Total assets*
First Mid-Illinois Bank and Trust, National Association, Mattoon, Illinois (10045), with	$296,783,000
and Downstate National Bank, Altamont, Illinois (13993), with	53,495,000
merged October 4, 1994, under charter and title of the former. The merged bank at date of merger had	356,781,000

* * *

FIRST FIDELITY BANK, NATIONAL ASSOCIATION, Elkton, Maryland, and The Bank of Baltimore, Baltimore, Maryland

Names of institutions and type of transaction	*Total assets*
First Fidelity Bank, National Association, Elkton, Maryland (22693), with	$31,106,235,000
and The Bank of Baltimore, Baltimore, Maryland, with	2,109,501,000
merged November 29, 1994, under charter and title of the former. The merged bank at date of merger had	33,215,736,000

* * *

COMPTROLLER'S DECISION

Introduction

On June 20, 1994, First Fidelity Bank, National Association, Salem, New Jersey, ("First Fidelity Bank") filed an application with the Office of the Comptroller of the Currency ("OCC") for approval to change the location of its main office from Salem, New Jersey, to Elkton, Maryland, under 12 U.S.C. 30 ("the Relocation Application"). The location in Elkton is approximately 18 miles from Salem. After the relocation of its main of-

Nonaffiliated mergers include the merger, consolidation, or purchase and assumption of nonaffiliated operating banks or savings and loan associations, where the resulting bank is a national bank.

Asset figures for merging institutions are not necessarily as of the date of merger and thus may not sum to the total assets given for the merged bank.

fice, First Fidelity Bank plans to continue to operate its existing branches in New Jersey, Pennsylvania, and New York.[1] On June 20, 1994, First Fidelity Bank also applied to the OCC for approval, after the main office relocation, to establish a branch at the former location of its main office in Salem under 12 U.S.C. 36(c) ("the Branch Application").

On September 2, 1994, application was also made to the OCC for approval to merge The Bank of Baltimore, Maryland, ("Bank of Baltimore") with and into First Fidelity Bank, under 12 U.S.C. 215a & 1828(c) ("the Merger Application"), under the charter and title of First Fidelity Bank. Bank of Baltimore is a Maryland state commercial bank. In the merger application, OCC approval is also requested for the resulting bank to retain the branches of both merging banks in Maryland, New Jersey, Pennsylvania, and New York as branches after the merger under 12 U.S.C. 36(b).

As of June 30, 1994, Bank of Baltimore had approximately $2.1 billion in assets and $1.9 billion in deposits and operated 43 offices in Maryland. As of the same date, adjusted for the recent merger with First Fidelity Bank, N.A., New York, and other recent acquisitions, First Fidelity Bank had approximately $31.5 billion in assets and $26 billion in deposits and operated 651 offices in New Jersey, Pennsylvania, and New York.

First Fidelity Bank is a subsidiary of First Fidelity Bancorporation, a multistate bank holding company with its headquarters in Lawrenceville, New Jersey. As a result of the merger, the operations of First Fidelity Bank, the principal bank subsidiary of First Fidelity Bancorporation will expand within Maryland.[2] First Fidelity Bancorporation also owns a subsidiary bank in Connecticut. Bank of Baltimore is a subsidiary of Baltimore Bancorp, a bank holding company whose sole banking subsidiary is the Bank of Baltimore. As a result of the merger, Baltimore Bancorp will no longer own a bank.

Legal Authority for the Relocation and Branch Application

In the relocation application, First Fidelity Bank has applied to change the location of its main office from Salem, New Jersey, to Elkton, Maryland, a distance of approximately 18 miles. It will continue to operate its existing branches in New Jersey, Pennsylvania, and New York. In the branch application, First Fidelity Bank has applied to establish a branch at the location of its former main office in Salem. These applications are similar to a number of prior relocation and interstate branching applications approved by the OCC, discussed below, and are legally authorized.

A. The relocation of First Fidelity Bank's main office to Elkton, Maryland, is authorized under 12 U.S.C. 30.

In a number of prior decisions, the OCC has authorized the relocation of a national bank's main office to another location across a state line. In two recent decisions, the bank—like First Fidelity Bank in the present application—would also continue to operate its existing branches in its original state. *See* Decision of the Office of the Comptroller of the Currency on the Applications of American Security Bank, N.A., Washington, D.C., and Maryland National Bank, Baltimore, Maryland (OCC Corporate Decision No. 94-05, February 4, 1994) (*"OCC NationsBank/Maryland National Decision"*); Decision of the Office of the Comptroller of the Currency on the Applications of First Fidelity Bank, N.A., Pennsylvania, Philadelphia, Pennsylvania, and First Fidelity Bank, N.A., New Jersey, Newark, New Jersey (OCC Corporate Decision No. 94-04, January 10, 1994) (*"OCC First Fidelity/New Jersey Decision"*). Other decisions involved only the interstate relocation of the main office. *See, e.g.,* Decision of the Office of the Comptroller of the Currency on the Applications of the First National Bank of Polk County (OCC Corporate Decision No. 94-21, April 28, 1994).[3]

---

[1] In a decision dated October 20, 1994, the OCC approved applications whereby the former First Fidelity Bank, National Association, New York, New York, was combined into First Fidelity Bank. First Fidelity Bank has also applied to merge an affiliated federal savings bank in Maryland, First Fidelity Bank, FSB, into First Fidelity Bank. That application is under review.

[2] It appears that First Fidelity Bancorporation could not have acquired and operated Bank of Baltimore as a separate subsidiary bank until after September 28, 1995, because of the Douglas Amendment to the Bank Holding Company Act ("BHCA"). The Riegle-Neal Act, *infra* note 7, amended the Bank Holding Company Act and removes the Douglas Amendment limitations effective one year after enactment. However, this transaction has been structured so that First Fidelity Bancorporation is not acquiring and operating Bank of Baltimore as a separate bank. In particular, in view of the structure of the transaction with the bank-to-bank merger occurring first, First Fidelity Bancorporation believes no applications under the BHCA are required for the transaction and has advised the Federal Reserve Board of its analysis. *See, e.g., Synovus Financial Corporation v. Board of Governors of the Federal Reserve System*, 952 F. 2d 426, 434-37 (D.C. Cir. 1991), *Marshall & Isley Corp. V. Heimann*, 652 F 2d 685, 699, 700 n 24, 701 n 27 (7th Cir. 1981), *cert. denied*, 455 U.S. 981 (1982), *Vial v. First Commerce Corp.*, 564 F. Supp. 650, 658-59 (E.D. La. 1983). The statutory framework distinguishes between actions and acquisitions at the level of the holding company and those at the level of the bank. The result in this case is consistent with other cases in which banks owned by holding companies have been permitted to absorb other banks in circumstances in which the holding company could not directly acquire the other bank. *See, e.g., Marshall & Isley Corp., supra*

[3] The OCC also approved national bank main office relocations under section 30 from Missouri into Kansas, from New Jersey into Pennsylvania, from Alabama into Georgia, and from Washington into Idaho. *See* Decision of the Comptroller of the Currency on the Application of Mark Twain Bank, National Ass'n, Independence,

The legal analysis and authorities supporting this position are set forth in the prior decisions, and only a summary will be presented here. The earlier decisions should be consulted for the full analysis.

The relocation of First Fidelity Bank's main office from Salem, New Jersey, to Elkton, Maryland, is legally authorized under 12 U.S.C. 30. Section 30 authorizes a national bank to change the location of its main office to any location within 30 miles of the city limits in which its main office is located. 12 U.S.C. 30. Such a relocation, even across state lines, is authorized by the literal language of the statute, and nothing in the legislative history gives any reason not to adhere to the literal language. The authority to relocate a main office is not limited by the McFadden Act, 12 U.S.C. 30(b). *See, e.g., Ramapo Bank v. Camp,* 425 F.2d 333, 340-46 (3d Cir.), *cert. denied,* 400 U.S. 828 (1970); *Traverse City State Bank v. Empire National Bank,* 228 F. Supp. 984, 992 (W.D. Mich. 1964). The Bank Holding Company Act also does not apply to main office relocations. *See, Synovus Financial Corporation v. Board of Governors of the Federal Reserve System,* 952 F.2d 426, 434-37 (D.C. Cir. 1991); *McEnteer v. Clarke,* 644 F. Supp. 290, 292-93 (E.D. Pa. 1986). *See also State of Idaho Department of Finance v. Clarke,* 994 F.2d 1441, 1447-49 (9th Cir. 1993); Federal Reserve Board, *Recission of Policy Statement Requiring Application for Relocation of a Subsidiary Bank to Another State,* 57 Fed. Reg. 9973 (March 23, 1992) (rescinding former 12 CFR 225.144). Finally, section 30 preempts state laws that conflict with the authority it confers on national banks. *See, e.g., Ramapo Bank; McEnteer; Traverse City State Bank.* Thus, the literal language of section 30 must be given full effect. National banks are authorized to move their main office to any location within 30 miles, even across state lines.

Missouri, to Relocate its Main Office to Overland Park, Kansas (1985), *reprinted in* [1984-85 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 86,180 (*"OCC Mark Twain Decision"*); Decision of the Comptroller of the Currency on the Application of the Bank of New Jersey, National Ass'n, Moorestown, New Jersey, to Relocate its Main Office to Philadelphia, Pennsylvania (1986) (*"OCC Bank of New Jersey Decision"*); Decision of the Comptroller of the Currency on the Application of SouthTrust National Bank, Phenix City, Alabama, to Relocate its Main Office to Columbus, Georgia (1989) (*"OCC SouthTrust Decision"*); Decision of the Comptroller of the Currency on the Application of the First Bank of Spokane, Spokane, Washington, to Relocate its Main Office to Coeur D'Alene, Idaho (1991) (*"OCC FNB Spokane Decision"*). The OCC also has approved interstate relocations in which the relocating bank immediately merged with an affiliated bank in the other state and went out of existence as a separate entity. *See* Relocation of Midlantic National Bank/Delaware, Wilmington, Delaware, to Carneys Point, New Jersey, and Merger with Midlantic National Bank, Newark, New Jersey (1990); Relocation of Central Atlantic National Bank from Newark, Delaware, to Aberdeen, Maryland, and Merger with Maryland National Bank, Baltimore, Maryland (1991).

Accordingly, First Fidelity Bank's relocation of its main office from Salem, New Jersey, to Elkton, Maryland, is legally authorized.[4]

B. First Fidelity Bank's continued operation of its existing branches in New Jersey, Pennsylvania, and New York is authorized.

When it relocates is main office to Elkton, First Fidelity Bank will continue to operate its existing branches in New Jersey, Pennsylvania, and New York. In the OCC's two earlier decisions involving the relocation of a national bank's main office across a state line and the continuation of existing branches in the original state, we extensively analyzed the legal authority for the continued operation of existing branches and concluded that continued operation of such existing branches is legally authorized. *See OCC NationsBank/Maryland National Decision* (Part II-B); *OCC First Fidelity/New Jersey Decision* (Part II-B). The same analysis is applicable to the present transaction and only a summary will be presented here. The earlier decisions should be consulted for the full analysis.

First, when a national bank relocates its main office under section 30, it may continue to operate its existing branches as an implied, but necessary, adjunct to the express authority to move the main office. The statutory language of sections 30 and 36 does not expressly address this area. The OCC concluded that this was Congress' intent by examining the overall statutory framework and its historical development. Congress enacted section 30, allowing the main office to relocate, without requiring the divestiture, reexamination, or re-authorization of existing branches. Congress subsequently amended sections 30 and 36

[4]First Fidelity Bank's main office is currently in Salem, New Jersey, as a result of an earlier relocation and consolidation transaction. *See OCC First Fidelity/New Jersey Decision.* In that transaction the main office of First Fidelity's Pennsylvania bank relocated from Philadelphia to Salem, and then First Fidelity's Pennsylvania bank and its New Jersey bank consolidated into one bank with its main office in Salem. The purpose of the earlier transaction was to combine the operations of the Pennsylvania and New Jersey banks and, in particular, to serve the Philadelphia metropolitan area with one bank. The fact of the earlier relocation does not affect the legal permissibility of the later relocation from Salem to Elkton, Maryland. First and most critically, each relocation independently complies with the legal requirements of section 30, and compliance with section 30 is the primary consideration in the permissibility of a main office relocation. *See, e.g., Ramapo Bank,* 425 F.2d at 340-42, *OCC NationsBank/Maryland National Decision* (Part II-A-1); *OCC First Fidelity/New Jersey Decision* (Part II-A-1). In addition, the two relocations were separate transactions undertaken at separate times for separate business reasons. The first relocation was filed with the OCC on September 24, 1993, and approved on January 10, 1994; its purpose was to facilitate the Pennsylvania/New Jersey combination and serve the Philadelphia market. The opportunity for First Fidelity to acquire Bank of Baltimore arose only later, and the merger agreement between First Fidelity and Baltimore Bancorp was announced on March 21, 1994.

numerous times without indicating any intent to subject the existing branches of a relocating bank to section 36. During this development, OCC and court decisions had opined that sections 30 and 36 operated independently. In the absence of express congressional action requiring that existing lawfully established branches be re-subjected to a *de novo* analysis under section 36 and divested, we concluded that the intention of the statutory scheme, considered as a whole, was that existing branches were continued.[5] *See OCC NationsBank/Maryland National Decision* (Part II-B-1); *OCC First Fidelity/New Jersey Decision* (Part II-B-1). Thus, First Fidelity Bank's continued operation of its existing branches in New Jersey, Pennsylvania, and New York is authorized.

In addition, in First Fidelity Bank's proposed relocation to Elkton, section 36 would also have independently provided a separate legal basis for continued operation of the branches in New Jersey and Pennsylvania. The McFadden Act expressly authorizes national banks to retain grandfathered branches — *i.e.*, branches in existence when the Act was adopted, February 25, 1927. *See* 12 U.S.C. 36(a), 36(b)(1)(B), & 36(b)(2)(B). This authority is without qualification and without conditions based on other provisions in the McFadden Act, on State law, or on the location of the bank's main office and other branches. First Fidelity Bank has at least one such grandfathered branch in New Jersey (the Bayonne Branch at 500 Broadway in Bayonne) and two grandfathered branches in Pennsylvania (the Chester Branch at Fifth and Avenue of the States in Chester, and the Independence Mall Branch at Sixth and Market in Philadelphia). Thus, following the main office relocation, First Fidelity Bank could retain these three grandfathered branches under the express terms of the McFadden Act. Then, because of its branches in each state, the bank is situated in each state for purposes of establishing additional branches under section 36(c). *See Seattle Trust & Savings Bank v. Bank of California, N.A.*, 492 F.2d 48, 51 (9th Cir. 1974), *cert. denied*, 419 U.S. 844 (1974) (an interstate national bank is "situated" in each state in which it has offices for purposes of establishing additional branches under section 36(c)). The OCC has applied this principle from *Seattle Trust* in prior decisions involving national banks with operations in more than one state. *See OCC NationsBank/Maryland National Decision* (Parts II-B-2 and III); *OCC First Fidelity/New Jersey Decision* (Parts II-B-2 and III).[6] Under section 36(c), a national bank may establish branches within each state in which it is situated to the extent that state allows its state banks to have branches. New Jersey law allows New Jersey banks to establish branches throughout the state. *See* New Jersey Stat. Ann. 17.9A-19(K). Thus, as a bank situated in New Jersey, First Fidelity Bank could establish branches at all its existing locations in New Jersey. Pennsylvania law allows Pennsylvania banks to establish branches throughout the state. *See* 7 Penn. Stat. Ann. 904(c). Thus, as a bank situated in Pennsylvania, First Fidelity Bank could establish branches at all its existing locations in Pennsylvania.

Accordingly, after the relocation of its main office to Elkton, Maryland, First Fidelity Bank's continued operation of its existing branches in New Jersey, Pennsylvania, and New York is legally authorized.

C. Establishment of a branch in Salem is authorized under 12 U.S.C. 36(c).

In the branch application, First Fidelity Bank has applied to establish a branch at the location of its main office in Salem, New Jersey. After the relocation of its main office to Elkton, First Fidelity Bank will continue to operate its existing branches in New Jersey. There-

[5] Congress's recent amendment to sections 30 and 36 buttresses our earlier interpretation. *See* note 7 below for legislative citations. As part of the new interstate branching legislation, Congress has amended sections 30 and 36 to add provisions so that in an interstate main office relocation after May 31, 1997, in which, as in this case, a bank enters a state in which it does not currently have branches, the continued operation of existing branches in the state from which the bank relocated is expressly made subject to requirements set out in the new provisions. This clearly reflects an awareness by Congress that continued operation is contemplated under section 30 and that such continued operation will be limited by the express congressional action in the amendments.

[6] *See also* Decision of the Office of the Comptroller of the Currency on the Application for the Merger of Continental Bank, Norristown, Pennsylvania, into Midlantic National Bank, Newark, New Jersey (OCC Corporate Decision No. 94-37, August 12, 1994) (*"OCC Midlantic Decision"*); Decision of the Office of the Comptroller of the Currency on the Applications to Merge NationsBank of D.C., N.A., Maryland National Bank, and NationsBank of Maryland, N.A. (OCC Corporate Decision No. 94-22, April 29, 1994) (*"OCC NationsBank/D.C.-Maryland Decision"*); Decision of the Office of the Comptroller of the Currency on the Application for the Merger of First Peoples National Bank, Kingston, Pennsylvania, with and into First Fidelity Bank, National Association, Salem, New Jersey (OCC Corporate Decision No. 94-07, February 23, 1994) (*"OCC First Peoples Decision"*); Decision of the Comptroller of the Currency on the Application of State Savings Bank, Southington, Connecticut, to Convert into a National Banking Association, State Savings Bank, N.A., and Merge into Connecticut National Bank, Hartford, Connecticut (OCC Merger Decision No. 91-07, April 8, 1991), *available in* 1991 OCC Ltr. LEXIS 73 (*"OCC Shawmut Decision"*) (both banks owned by Shawmut National Corporation; at the time of conversion State Savings Bank had branches in Rhode Island); Decision of the Comptroller of the Currency on the Application to Merge Girard Bank, Bala Cynwyd, Pennsylvania, into Heritage Bank, National Association, Jamesburg, New Jersey, under the Charter of the Latter and with the Title of Mellon Bank (East) National Association (March 27, 1984), *reprinted in* [1983-84 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 99,925 (*OCC Mellon Decision"*) (in 1984 Heritage had a grandfathered branch in Philadelphia, the 1984 transaction was not consummated and Heritage later became part of Midlantic National Bank).

fore, because it operates branches in New Jersey, it is "situated" in New Jersey for purposes of establishing additional branches in New Jersey under 12 U.S.C. 36(c). *See Seattle Trust,* 492 F.2d at 51 (discussed above). Under New Jersey law, a New Jersey bank could establish a branch at the location in Salem. *See* New Jersey Stat. Ann. 17.9A-19. Accordingly, First Fidelity Bank's establishment of a branch at the location in Salem is authorized under section 36(c).

D. Conclusion

In conclusion our legal analysis of these applications follows our analysis of prior interstate relocation decisions and other prior decisions involving interstate national banks. The relocation of the main office to Elkton is authorized under 12 U.S.C. 30. The bank may continue to operate its existing branches in New Jersey, Pennsylvania, and New York. And it may establish a new branch at the old main office location in Salem under 12 U.S.C. 36(c). Accordingly, these applications are legally authorized.[7]

Legal Authority for the Merger Application

After the relocation, First Fidelity Bank will continue to be an interstate national bank, with its main office in Maryland and branches in New Jersey, Pennsylvania, and New York. This merger application thus involves a merger between an interstate national bank and another bank in one of its existing states. The OCC has previously considered the National Bank Act's merger and branch retention provisions in the context of mergers involving interstate banks. *See* OCC decisions listed in note 8 below. Applying the same analysis to the present merger application, we find that the merger of Bank of Baltimore into First Fidelity Bank is legally authorized under 12 U.S.C. 215a. We also find that, after the merger, the resulting bank may retain the branches of both banks in Maryland, New Jersey, Pennsylvania, and New York as branches under 12 U.S.C. 36(b)(2).

A. Bank of Baltimore may merge into First Fidelity Bank under section 215a.

Mergers of national banks, and of state banks into national banks, are authorized under 12 U.S.C. 215a. Section 215a provides in relevant part:

> One or more national banking associations or one or more State banks, with the approval of the Comptroller, under an agreement not inconsistent with this subchapter, may merge into a national banking association *located within the same State,* under the charter of the receiving association.

12 U.S.C. 215a(a) (emphasis added). The proposed transaction complies with all other provisions of section 215a. The only issue is the interpretation of the phrase "located within the same State" as applied to national banks that have offices in more than one State. In particular, in this proposal, the issue is whether First Fidelity Bank is "located" in Maryland by virtue of its main office in Elkton while it also has branches in New Jersey, Pennsylvania, and New York.

The OCC analyzed this issue in earlier cases involving a merger or consolidation with an interstate bank.

---

[7]Our analysis of the legal authority for these applications is based on current law, in particular 12 U.S.C. 30 & 36(c). The recently enacted interstate banking and branching legislation does not change the legal analysis and result, and indeed has confirmed it. *See* Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, Pub L. No. 103-328, 108 Stat. 2338 (enacted September 29, 1994) ("the Riegle-Neal Act"). The Riegle-Neal Act adds a new section 44 to the Federal Deposit Insurance Act that authorizes certain interstate branching transactions beginning on June 1, 1997. It also makes conforming amendments to 12 U.S.C. 36 to add branching provisions for national banks to correspond to the section 44 transactions. However, existing branching authority in sections 36(a), 36(b) and 36(c) is not changed. Moreover, the amendments added to section 36 shows that existing authority continues in force. First, the provision on exclusive authority for additional branches is not effective until June 1, 1997. In addition, even after it is effective, it expressly does not apply in states in which the bank has its main office or already has a branch; and it also expressly includes, as a continuing source of authority, branching authorized "under this section" *i.e.,* Revised Statutes 5155, the McFadden Act). *See* Riegle-Neal Act 102(b)(1) (adding new subsection (e) to section 36). The Riegle-Neal Act also does not change section 30 with respect to the power to change the location of the main office across a state line. But it does change sections 30 and 36 with respect to the power of the bank to keep existing branches in the state from which it relocated. *See* Riegle-Neal act 102(b)(1) (adding new subsection (e) to section 36) & 102(b)(2) (adding new subsection (c) to section 30). However, this change to the authority to continue existing branches in a relocation does not take effect until June 1, 1997. The legislation thus clearly contemplates that this existing authority remains in effect until then. In the legislative history, the conference report expressly shows that congress was aware of existing authority and of OCC analyses and approvals under that authority (such as the *OCC NationsBank/Maryland National Decision*, the *OCC First Fidelity/New Jersey Decision*, and the other decisions cited in notes 3 and 6 above) and expected it to continue until June 1, 1997:

> The Conferees are aware of the OCC procedures in permitting relocation across state lines. The Conferees concur with those procedures, including the application of appropriate State law and authority. The Conferees expect the OCC to continue to follow those procedures until the provisions of Title I become fully applicable on June 1, 1997

H.R Conf. Rep. No. 651, 103d Cong., 2d Sess. (August 2, 1994) (Report on H.R. 3841, the Riegle-Neal Interstate Banking and Branching Efficiency Act 1994) (Joint Explanatory Statement of Conference Committee discussing provisions that make the new Act the exclusive means to enter new States with interstate branches when the Act's measures take effect, and leave current law in operation until that date).

We concluded that, just as for branching purposes under section 36, a national bank with offices in more than one state was "located" in each such state for the purpose of mergers with other banks in that state under 12 U.S.C. 215a (mergers) or 12 U.S.C. 215 (consolidations).[8] The reasoning and support for this position are extensively set out in the earlier decisions and only a summary will be presented here. Section 215a does not have any definition or explanation of where a bank is considered "located." There is nothing in the usual meaning of the word "located" that would preclude a national bank from being deemed "located" at its branch offices as well as its main office. Under section 81, both the main office and branches are places at which the general business of the bank is conducted. Although no court has construed the word "located" in section 215a, there are several cases interpreting similar phrases elsewhere. The leading case involves the interpretation of 12 U.S.C. 36(c) with respect to a bank with branches in more than one state. *See Seattle Trust,* 492 F.2d at 51 (discussed above). Under section 36(c), as construed in *Seattle Trust* and subsequently applied by the OCC, a national bank is "situated" in each state in which it has offices for purposes of establishing branches. We believe the same reasoning and result is equally applicable to the interpretation of "located" in section 215a. In particular, in light of the *Seattle Trust* holding, if section 215a is not construed similarly, it would lead to the anomalous result that a national bank with existing branches in a state could establish new branches or could acquire additional branches through purchase from another bank in that state under section 36(c), but could not acquire branches through merger with another bank in that state.

In the present case, we also note that the banks could accomplish the same result by having First Fidelity Bank purchase all the assets and assume all the liabilities of Bank of Baltimore, including taking over its main office and branches, acquiring all the offices as branches under section 36(c). *See Seattle Trust*, 492 F.2d at 51. The resulting institution would have its main office in Elkton and all the branches throughout Maryland, New Jersey, Pennsylvania, and New York. The fact that the same transaction could be done as a purchase and assumption as well as by a statutory merger supports our interpretation of the merger statute. Since the same result could occur in another form, there is no policy reason for interpreting section 215a narrowly.

Accordingly, just as with "situated" in section 36(c), we conclude that, in section 215a, a national bank is "located" in each state where it maintains a banking office, whether the main office or a branch. Bank of Baltimore, with its main office in Baltimore and branches in Maryland, and First Fidelity Bank, with its main office in Elkton, Maryland, are therefore located in the same state for purposes of section 215a. The merger is legally authorized under 12 U.S.C. 215a.[9]

B. The resulting bank may retain the offices of both banks in Maryland, New Jersey, Pennsylvania, and New York under 12 U.S.C. 36(b)(2).

The applicants have also requested OCC approval for the bank resulting from the merger (referred to in this section as "First Fidelity-Resulting" or "the Resulting Bank" to distinguish it from First Fidelity Bank prior to the merger) to retain the branches of Bank of Baltimore in Maryland and the branches of First Fidelity Bank in New Jersey, Pennsylvania, and New York as branches of the resulting bank after the merger. Branch retention following a merger or consolidation is covered by the McFadden Act. *See* 12 U.S.C. 36(b)(2). Applying the various provisions of section

[8] In 1984, in the *OCC Mellon Decision*, we found that a national bank with its main office and branches in New Jersey and a grandfathered branch in Philadelphia was located in Pennsylvania for purposes of a merger with another Pennsylvania bank under section 215a. In 1991, in the *OCC Shawmut Decision*, we found that a national bank with its main office in Connecticut and all its branches in Rhode Island, was located in Connecticut for purposes of a merger with another Connecticut bank. In the *OCC First Fidelity/New Jersey Decision*, we applied the same analysis to "located" in 12 U.S.C. 215 (the consolidation statute) and found that a national bank with its main office in New Jersey and all its branches in Pennsylvania was located in New Jersey for purposes of a consolidation with another New Jersey Bank. In the *OCC NationsBank/Maryland National Decision*, we found that a national bank with its main office in Maryland and all its branches in the District of Columbia was located in Maryland for purposes of a merger with another Maryland bank. In the *OCC First Peoples Decision*, we found that a national bank with branches in Pennsylvania and its main office and other branches in New Jersey was located in Pennsylvania for purposes of a merger with another Pennsylvania bank. In the *OCC NationsBank/D.C.-Maryland Decision*, we found that a national bank with its main office and branches in Maryland and branches in the District of Columbia was located in the District for purposes of a merger with another District bank. In the *OCC Midlantic Decision* we found that a national bank with its main office and branches in New Jersey and a grandfathered branch in Philadelphia was located in Pennsylvania for purposes of a merger with another Pennsylvania bank.

[9] As part of the merger, First Fidelity Bank will come to own the subsidiaries of the Bank of Baltimore: Atlantic Residential Mortgage Corporation ("ARMCO"); Baltimore Bancorp Investment Services ("BBIS"); Baltimore Bancorp Leasing and Financial, Inc. ("BBLF"); Atlantic Independent Insurance Agency ("AIIA"), and Towson Service Corporation ("TSC"). The activities of ARMCO, BBIS, and BBLF, and most of the activities of AIIA, are permissible for national banks and are similar to existing subsidiaries of First Fidelity Bank, and First Fidelity Bank may continue to operate them. Certain of the activities of AIIA and TSC have not previously been determined to be generally permissible for national banks. First Fidelity Bank intends to bring them into conformance or to divest them within a reasonable period after the merger.

36(b)(2) to the different groups of branches involved in the merger application, we find that First Fidelity-Resulting is legally authorized to retain all the offices as branches.

The McFadden Act authorizes the national bank resulting from the consolidation or merger[10] of a national bank with another bank or banks to retain branches in three ways. First under section 36(b)(2)(A), the resulting bank may retain as branches any of the main offices or branches of any of the target banks in the merger if it might be established as a branch by the resulting bank under section 36(c). Second, under section 36(b)(2)(B), the resulting bank may retain any branch of any bank participating in the merger that was in operation by any bank on February 25, 1927. Finally, under section 36(b)(2)(C), the resulting national bank may retain the pre-merger branches of the lead national bank (*i.e.*, the national bank under whose charter the merger is effected) unless a similarly situated state bank resulting from the merger of other banks into a state bank would be prohibited by state law from retaining as a branch an identically situated office. *See* 12 U.S.C. 36(b)(2).[11]

[10]Section 36(b)(2) refers to the bank resulting from a "consolidation," and paragraph (b)(3) specifies that "consolidation" includes a "merger."

[11]Section 36(b)(2) provides:

> A national bank (referred to in this paragraph as the "resulting bank"), resulting from the consolidation of a national bank (referred to in this paragraph as the "national bank") under whose charter the consolidation is effected with another bank or banks, may retain and operate as a branch any office which, immediately prior to such consolidation, was in operation as —
>
> (A) a main office or branch office of any bank (other than the national bank) participating in the consolidation if, under subsection (c) of this section, it might be established as a new branch of the resulting bank, and if the Comptroller of the Currency approves of its continued operation after the consolidation;
>
> (B) a branch of any bank participating in the consolidation, and which, on February 25, 1927, was in operation as a branch of any bank; or
>
> (C) a branch of the national bank and which, on February 25, 1927, was not in operation as a branch of any bank, if the Comptroller of the Currency approves of its continued operation after the consolidation.
>
> The Comptroller of the Currency may not grant approval under clause (C) of this paragraph if a State bank (in a situation identical to that of the resulting national bank) resulting from the consolidation into a State bank or another bank or banks would be prohibited by the law of such State from retaining and operating as a branch an identically situated office which was a branch of the State bank immediately prior to consolidation.

Retention of Bank of Baltimore's branches. In the proposed merger Bank of Baltimore is the target bank, and First Fidelity-Resulting is authorized to retain the branches of Bank of Baltimore in Maryland under section 36(b)(2)(A). Under section 36(b)(2)(A), the resulting bank may retain the branches or the main office of the target bank if the resulting bank could establish them as new branches of the resulting bank under section 36(c). For branching purposes a national bank is "situated" in any State in which it has a branch or main office. *See Seattle Trust, supra.* In applying the branch retention provisions of section 36(b)(2)(A) in the context of mergers involving interstate banks, the OCC has previously concluded that the resulting bank is properly treated as situated in all of the states in which the participating banks were situated in order to then apply the section 36(c) standard. We first reached this analysis in a decision involving the conversion of an interstate state bank and its subsequent merger into a national bank, *see OCC Shawmut Decision,* and have applied it in subsequent decisions involving mergers with interstate banks. *See, e.g., OCC NationsBank/D.C.-Maryland Decision; OCC First Peoples Decision; OCC NationsBank/Maryland National Decision; OCC First Fidelity/New Jersey Decision.* The reasoning and support for this position are fully discussed in the earlier *OCC Shawmut Decision,* and only a summary of the analysis will be presented here.

Since section 36(b)(2)(A) refers to section 36(c), it is necessary to determine in which state the resulting national bank is situated. In contexts in which all the banks operate only in the same state, it is clear in what state the resulting bank is situated. But in the context of a national bank resulting from the merger of banks which already have lawfully established interstate branches, the statutory language does not expressly resolve the issue, and it becomes necessary to fill this gap through interpretation. We believe the proper interpretation is that the resulting bank is situated in all of the states in which the banks participating in the merger were situated. This result is based upon several statutory analysis considerations. First, this construction of section 36(b)(2)(A) is consistent with the interpretation of "situated" in section 36(c). *See Seattle Trust*, 492 F.2d at 51.

Second, in the context of an existing interstate bank, it is the simplest application of the statute to the underlying facts. When a bank with its main office in one state and branches in another state merges with another bank, the ordinary assumption would be that the resulting bank continues to be located in the same places. There is no logical reason to disregard some of the existing locations of the merging banks in determining the location of the resulting bank at the mo-

ment of its creation, unless the statutory language clearly requires another result. With respect to the power to retain branches *within* each state, the statute does expressly require the branches to be re-examined under its terms. But with respect to determining in which state or states the bank is treated as situated in conducting that re-examination, the statute does not indicate that any of the predecessor banks' existing states is to be ignored.

Third, the literal language of section 36(b)(2)(A), while not directly addressing this issue, supports the OCC's interpretation. The language of the section focuses on whether the *"resulting* bank" could establish the branches of a participating bank as new branches. The term "resulting bank" expressly refers to the *combined* bank that results from the merger, as distinct from either of the pre-existing banks. In particular, the "resulting bank" is differentiated from the term "national bank" which is used to refer to the acquiring bank. As a consequence, it is appropriate to consider where all participating banks — and not merely the acquiring bank — had locations prior to the merger. Moreover, to adopt another interpretation and use only the locations of the acquiring bank in determining where the resulting bank is situated would not give effect to the actual wording of 36(b)(2)(A), but instead would be construing it as if the term "national bank" were substituted for "resulting bank." Since the OCC's interpretation gives effect to Congress's use of the term "resulting bank" in this context, there is no warrant to disregard the language of the statute.

Finally, transactions could be structured in a different form that reaches a similar end result as our interpretation of section 36(b)(2)(A), and so there is no policy reason not to adopt this construction of section 36(b). In this proposal, the transaction is structured as a statutory merger of Bank of Baltimore into First Fidelity Bank. The parties could effect a similar transaction in the form of a purchase and assumption of Bank of Baltimore by First Fidelity Bank. In that case, the ability of First Fidelity Bank to establish the branches of Bank of Baltimore would be clearly authorized under section 36(c). *See Seattle Trust, supra.* The end result is similar: a combined bank with branches in all states. Since branch retention in other forms of the transaction is authorized under other parts of section 36, it is not unreasonable to conclude that section 36(b)(2)(A) authorizes branch retention in this form of the transaction.

In the present merger application, both of the participating banks had offices in Maryland. Accordingly, the resulting bank, First Fidelity-Resulting, is situated in Maryland (as well as in New Jersey, Pennsylvania, and New York) for purposes of sections 36(b)(2)(A) & 36(c). Under Maryland law, a national bank situated in Maryland could establish branches at all the locations at which Bank of Baltimore has offices. *See* Md Code Ann. Fin. Inst. 5-501 (general branching law allowing branching without geographic limits) & 3-712(c) (bank resulting from merger continues business of merging banks). Thus, First Fidelity-Resulting may retain the branches of Bank of Baltimore under section 36(b)(2)(A).

Retention of First Fidelity Bank's grandfathered branches. Under section 36(b)(2)(B), the resulting bank may retain any branches of the participating banks that were in operation on February 25, 1927, as branches of any bank. The McFadden Act expressly authorizes national banks to retain grandfathered branches — *i.e.*, branches in existence when the Act was adopted, February 25, 1927. *See* 12 U.S.C. 36(a), 36(b)(1)(B), & 36(b)(2)(B). This authority is without qualification and without conditions based on other provisions in the McFadden Act, on State law, or on the location of the bank's main office and other branches. First Fidelity Bank has a least one such grandfathered branch in New Jersey (the Bayonne Branch at 500 Broadway in Bayonne) and at least two such grandfathered branches in Pennsylvania (the Chester Branch at Fifth and Avenue of the States in Chester, and the Independence Mall Branch at Sixth and Market in Philadelphia). Thus, First Fidelity-Resulting may retain those branches under section 36(b)(2)(B). Then, because of the grandfathered branches in each state, as well as its other offices, First Fidelity-Resulting is situated in New Jersey and Pennsylvania for further branching purposes. *See Seattle Trust*, 492 F.2d at 51. New Jersey and Pennsylvania each allow statewise branching. *See* New Jersey Stat. Ann. 17:9A-19(K); 7 Penn. Stat. Ann. 904(c). Thus, in addition to the authorization under section 36(b)(2)(C), discussed below, First Fidelity-Resulting could establish branches at all the existing locations in both states.

Retention of First Fidelity Bank's other branches. In the proposed merger, First Fidelity Bank is the acquiring or lead bank, *i.e.*, the bank under whose charter the merger is effected. Section 36(b)(2)(C) of the McFadden Act authorizes the national bank resulting from a merger to retain and operate as a branch any branch of the lead bank that existed prior to the merger, unless a State bank resulting from a merger would be "prohibited" by State law from retaining as a branch an identically situated office of a State bank. In prior merger decisions involving interstate national banks, the OCC has addressed the interpretation of section 36(b)(2)(C) with respect to interstate branches. *See OCC Midlantic Decision; OCC NationsBank/D.C.-Maryland Decision; OCC First Peo-*

ples Decision. See also OCC First Fidelity/New Jersey Decision. We determined that section 36(b)(2)(C) should be applied in the same manner as sections 36(c) and 36(b)(2)(A), so that the resulting national bank is treated as situated in each state in which is operates in applying section 36(b)(2)(C). Thus, the power of the resulting bank to retain the lead bank's branches in each state is determined by reference to that state's laws for that state's banks. Therefore, under section 36(b)(2)(C), First Fidelity-Resulting may retain and continue to operate First Fidelity Bank's existing branches in New Jersey, Pennsylvania, and New York following the merger.

Paragraph (C) was added in 1962 to address a problem that had arisen under prior law.[12] Congressional intent in addressing the problem is clear. Congress' response was to add a new branch retention provision. Its purpose was to allow the acquiring bank in a merger to keep its existing branches, even if they could no longer be newly established under section 36(c), unless the state had affirmatively acted to prohibit state banks in the same situation from retaining branches. *See* H.R. Rep. No. 2256, 87th Cong., 2d Sess. 1-2 (1962); S. Rep. No. 2040, 87th Cong., 2d Sess. 1-2 (1962); 108 Cong. Rec. 16631-32 (1962). *See also OCC Mellon Decision* (discussing legislative history).

Thus, section 36(b)(2) now differentiates between branches of target banks and branches of the lead bank. State law on the establishment of new branches applies to the resulting bank's retention of the branches of the target bank under paragraph (A); but it does not apply to the resulting bank's retention of the branches of the lead bank under paragraph (C). Instead, a different rule applies: The branches may be retained unless the state has expressly prohibited it.

When the lead bank in a merger already operates in more than one state or when the resulting bank would operate in more than one state, it is necessary to determine how section 36(b)(2)(C) applies in the case of an interstate bank, *i.e.*, how should the references to state law and state banks in section 36(b)(2)(C) be construed? We believe the proper interpretation in section 36(b)(2)(C) in the case of an interstate bank is the same one that was adopted for sections 36(c) and 36(b)(2)(A) in the case of an interstate bank. Thus, with respect to the retention of branches within each state, it is that state's law for in-state mergers of its banks that is used. This interpretation parallels the interpretation of "situated" in sections 36(c) and 36(b)(2)(A): the ability of the interstate bank to establish or retain branches in each of its states is governed by the appropriate provisions of that state's laws. The resulting bank is treated as a bank in each state in applying the branch retention rule of clause (C) for the branches in that state. This result is simpler to apply than an interpretation that would use one state's laws to apply to branch retention in another state. It is consistent with interpretation of related provisions in the McFadden Act. Finally, it is consistent with the legislative history. Since the 1962 amendment was intended to make the branch retention rule for the lead bank's branches in clause (C) more liberal than the rule for target bank branches in clause (A), clause (C) must allow at least as much branch retention as clause (A). In the present case, if the cause (A) rule were applied to retaining the branches of First Fidelity Bank, the branches could be retained because the bank is situated in New Jersey, Pennsylvania, and New York for purposes of establishing new branches under section 36(c).

With respect to the New Jersey branches, there is no New Jersey law that would prohibit retention of these branches in a merger involving New Jersey banks.[13] Indeed, New Jersey authorizes the lead bank in mergers to continue its branches. *See* New Jersey Stat. Ann. 17:9A-134(7) & 17:9A-139(2). The branches could also be established under the general state branching statute, *See* New Jersey Stat. Ann. 17:9A-19(K). *See also First Fidelity/New Jersey Decision* (Part III-B-3). Thus, First Fidelity-Resulting may retain the New Jersey branches of First Fidelity Bank under section 36(b)(2)(C).

With respect to the Pennsylvania branches, there is no Pennsylvania law that would prohibit retention of these branches in a merger involving a Pennsylvania

[12]Before the McFadden Act, the law had been simply that a national bank resulting from the conversion of a state bank or from a consolidation could retain the branches. The McFadden Act provided only for retention of grandfathered branches. This led to an unintended consequence as time went on after 1927: for branches initially established after 1927, if state law or other circumstances had changed since the branch was originally established such that it could not be re-established *de novo* by the resulting bank, it was unclear whether the resulting national bank could keep the branch. This was addressed in the 1962 amendments. In addition to retaining branches of the target bank that could be established under section 36(c) and retaining grandfathered branches, the converting or consolidating bank could retain its own existing branches unless the State had expressly prohibited retention in such circumstances. The amendment also restructured section 36(b), creating separate paragraphs for conversion and for consolidation. The substantive changes are in sections 36(b)(1)(C) and 36(b)(2)(C). Sections 36(b)(1)(A)&(B) and 36(b)(2)(A)&(B) carry forward prior law. *See* Act of September 28, 1962, Pub. L. No. 87-721, 76 Stat. 667

[13]The use of the term "prohibited" in section 36(b)(2)(C) implies that there must be an express prohibition in state statute, retention of a branch is not prohibited merely because there is a lack of an express affirmative permission. The OCC has previously concluded this is the intended meaning of the provisions of section 36(b)(2)(C). *See, e.g., OCC Mellon Decision*

state bank. Indeed as discussed above, Pennsylvania law would allow these branches. *See* 7 Penn. Stat. Ann. 904(c) *See also OCC First Fidelity/New Jersey Decision* (Part III-B-2). Thus, First Fidelity-Resulting may retain the Pennsylvania branches of First Fidelity Bank under section 36(b)(2)(C).

With respect to the New York branches, there is no New York law that would prohibit retention of these branches in a merger involving New York banks. Indeed, New York law would allow these branches. *See* New York Banking Law 105(1) (general branching) & 105(5) (branching by merger or acquisition). Thus, First Fidelity-Resulting may retain the New York branches of First Fidelity Bank under section 36(b)(2)(C).

C. Conclusion

In conclusion, our legal analysis of this merger application follows our analysis of prior merger proposals involving an interstate bank. We find that the merger of Bank of Baltimore into First Fidelity Bank is legally authorized under 12 U.S.C. 215a. We also find that after the merger the resulting bank is legally authorized to retain and operate as branches the branches of both banks in Maryland, New Jersey, Pennsylvania, and New York under the McFadden Act, 12 U.S.C. 36(b)(2). Accordingly, the merger application is legally authorized.[14]

Additional Statutory and Policy Reviews

A. The Bank Merger Act

The Bank Merger Act requires the OCC's approval for any merger between insured banks where the resulting institution will be a national bank. The OCC generally may not approve a merger which would substantially lessen competition. Additionally, the "banking factors" which include the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served must also be considered. For the reasons stated below, we find the merger application may be approved under 12 U.S.C. 1828(c).

Competitive Analysis. The OCC has reviewed the competitive effects of this proposal by using its standard procedures for determining whether a merger clearly has minimal or no adverse competitive effects. The OCC finds that the proposal satisfies its criteria for a merger that clearly has no or minimal adverse competitive effects.

Financial and Managerial Resources. We find that the financial and managerial resources of First Fidelity Bank and Bank of Baltimore do not raise concerns that would cause the application to be disapproved. The future prospects of the proponents, individually and combined, are considered favorable.

Convenience and Needs. The combined bank will meet the convenience and needs of the communities to be served. The proposed merger will benefit customers of both banks. Upon completion of the merger, customers of both banks will have available to them a significantly greater number of branches at which to bank. Especially benefitting will be those customers who live in New Jersey or in Pennsylvania and work in Maryland or vice versa. The combined resources will provide a more substantial capital cushion for unexpected losses as well as provide business customers with a higher legal lending limit.

Further, there will be no reductions in the products or services as a result of the merger. The combined bank will continue to offer a full line of banking products and services. It is envisioned that a number of First Fidelity Bank products will be introduced to the Maryland market, including home equity lending products, trust services, trade finance, and an increased rage of commercial lending. Existing Bank of Baltimore products for which there is no First Fidelity Bank counterpart and for which there is sufficient consumer demand will continue to be offered in Maryland. No branch closings are contemplated as a result of the merger. However, as part of its ongoing acquisition plans, First Fidelity Bank evaluates branches acquired in transactions and, as part of the normal course of business, may close redundant or unprofitable branches. Any such closures will be made in accordance with applicable statues and regulations and will consider the needs of the community affected.

---

[14] Our analysis of the legal authority for the Merger Application is based on current law, in particular 12 U.S.C. 215a, 36(b)(2) & 36(c). The recently enacted interstate banking and branching legislation does not change the legal analysis and result, and may in fact have strengthened it. *See* Riegle-Neal Act *supra*. The Riegle-Neal Act adds a new section 44 to the Federal Deposit Insurance Act that authorizes certain interstate branching transactions beginning on June 1, 1997. It also makes conforming amendments to the provisions on mergers and consolidations of national banks (adding a new section that follows 215 and 215a) and to the McFadden Act (adding a new subsection 36(d)) that add merger and branching provisions for national banks to correspond to the section 44 transactions. However, existing authority in sections 215 and 215a and in sections 36(a), 36(b) and 36(c) is not changed. The statutory language and legislative history clearly contemplate that existing authority under these provisions remains in effect. *See* further discussion in note 7 above.

B. The Community Reinvestment Act

The Community Reinvestment Act requires the OCC to take into account the applicants' record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, when evaluating certain applications. *See* 12 U.S.C. 2903. Bank of Baltimore and First Fidelity Bank have satisfactory records with respect to CRA performance, based on current examinations. The resulting bank's communities will continue to benefit from its and First Fidelity Bancorporation's commitment to CRA. Its three year $700 million lending program, announced in 1992, is aimed at meeting housing and other needs within low income communities

The merger should have no adverse effect on the combined bank's CRA performance. The resulting bank will carry forward and continue to serve the same delineated communities as the merging banks. A combined CRA statement for the merged bank was submitted. It will be using the same CRA statements, policies, programs, and personnel that First Fidelity Bank uses today. The resulting bank will offer in Maryland various First Fidelity CRA programs for which there is no Bank of Baltimore counterpart. It will also continue existing programs now offered by Bank of Baltimore. The resulting bank's commitment and ability to help meet the credit needs of all the communities it serves should be no different whether the communities are in separate states or in separate areas of one state. The merger and operation of interstate branches do not alter First Fidelity Bank's obligation to help meet the credit needs of its communities in New Jersey, Pennsylvania, New York, and Maryland.

Conclusion and Approval

For the reasons set forth above, the relocation application, the branch application, and the merger application are legally authorized under 12 U.S.C. 30, 36, and 215a. The transactions also meet the criteria for approval under other statutory factors. Accordingly, these applications are hereby approved.

November 4, 1994

* * *

TRUSTMARK NATIONAL BANK,
Jackson, Mississippi, and First National Bank of Vicksburg, Vicksburg, Mississippi

Names of institutions and type of transaction	*Total assets*
Trustmark National Bank, Jackson, Mississippi (10523), with	$4,538,586,000
and First National Bank of Vicksburg, Vicksburg, Mississippi (3258), with	299,291,000
merged October 7, 1994, under charter and title of the former. The merged bank at date of merger had	4,834,959,000

* * *

COMMERCE BANK, NATIONAL ASSOCIATION,
Columbia, Missouri, and The Moniteau National Bank of California, California, Missouri

Names of institutions and type of transaction	*Total assets*
Commerce Bank, National Association, Columbia, Missouri (16949), with	$348,516,000
and The Moniteau National Bank of California, California, Missouri (1712), with	32,536,000
merged October 1, 1994, under charter and title of the former. The merged bank at date of merger had	381,754,000

* * *

COMPTROLLER'S DECISION

On June 8, 1994, application was made to the Office of the Comptroller of the Currency for prior authorization to merge The Moniteau National Bank of California, California, Missouri ("Moniteau") into Commerce Bank, National Association, Columbia, Missouri ("Commerce"). This application was based on an agreement entered into between the proponents on June 2, 1994.

As of March 31, 1994, Moniteau, a national bank, had total deposits of $30 million and operated one office. On the same date, Commerce had total deposits of $319 million and operated 11 offices. Commerce is 100 percent owned and controlled by Commerce Bancshares, Inc., a multibank holding company.

The primary service area for Moniteau, the target bank, is the area including and immediately surrounding California. This is the area where Moniteau operates its sole office and derives the bulk of its deposits. Commerce operates in a completely separate market; however, the primary service area for its Tipton branch, its only office in close proximity to the primary service area of Moniteau, is centered approximately 15 miles west of California, in an area including and immediately surrounding Tipton. While

the primary service areas of Commerce's Tipton branch and the target bank are adjacent, each bank receives only a nominal amount of deposits from the area served by the other bank. This proposal essentially constitutes market expansion for Commerce and its consummation would not have a significantly adverse effect on competition in any banking market.

The Bank Merger Act requires the OCC to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." We find that the financial and managerial resources of Moniteau and Commerce do not raise concerns that would cause the application to be disapproved. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to the OCC as a result of its regulatory responsibilities has revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low- and moderate-income neighborhoods, is less than satisfactory.

We have analyzed this proposal pursuant to the Banker Merger Act (12 U.S.C. 1828(c)) and find that it will not lessen significantly competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

August 11, 1994

* * *

THE FIRST NATIONAL BANK OF MEXICO,
Mexico, Missouri, and Laddonia State Bank, Mexico, Missouri

Names of institutions and type of transaction	*Total assets*
The First National Bank of Mexico, Mexico, Missouri (2881), with	$62,390,000
and Laddonia State Bank, Mexico, Missouri, with	33,810,000
merged October 1, 1994, under charter and title of the former. The merged bank at date of merger had	96,625,000

* * *

COMPTROLLER'S DECISION

On June 23, 1994, application was made to the Office of the Comptroller of the Currency for prior authorization to merge Laddonia State Bank, Mexico, Missouri 65265 into The First National Bank of Mexico, Mexico, Missouri 65265 under the charter and the title of The First National bank of Mexico. This application was based on an agreement entered into between the proponents.

As of March 31, 1994, Laddonia State Bank (Laddonia), a state nonmember bank, had total deposits of $29 million and operated four offices. On the same date, The First National bank of Mexico (First National) had total deposits of $54 million and operated one office. First National is 100 percent owned and controlled by Central Bancompany, Inc., a one-bank holding company.

The relevant geographic market for this proposal is Audrain County. This is the area where Laddonia, the target bank, operates all of its offices and derives the bulk of its deposits. Within this market, five commercial banks and one thrift compete for deposits of approximately $359 million. First National ranks fourth in market deposits with a share of approximately 15 percent. Laddonia ranks fifth in market deposits with a share of approximately 8 percent. Consummation of this transaction would result in First National increasing its rank to third in market deposits with a share of approximately 23 percent. While the proposed transaction would eliminate some direct competition in the relevant geographic market, any adverse competitive effects would be mitigated by the presence of a number of other banking alternatives, including two of the largest regional banking companies in the state. Consequently, consummation of this transaction would not have a significantly adverse effect on competition in the relevant geographic market.

The Bank Merger Act requires the OCC to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." We find that the financial and managerial resources of Laddonia and First National do not raise concerns that would cause the application to be disapproved. The future prospects of

the proponents, individually and combined, are considered favorable. The resulting bank will continue to operate all existing and acquired branches and no banking services will be discontinued. However, within one year, resulting bank will close one of the facilities in Mexico, Missouri. The facilities are in close proximity and no products or services will be discontinued. It does not appear that customers will be unduly inconvenienced. Therefore, the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to the OCC as a result of its regulatory responsibilities has revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low- and moderate-income neighborhoods, is less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act (12 U.S.C. 1828 (c)) and find that it will not lessen significantly competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

August 22, 1994

* * *

FIRST NATIONAL BANK NORTHEAST,
Lyons, Nebraska, and The First National Bank of Hooper, Hooper, Nebraska

Names of institutions and type of transaction	*Total assets*
First National Bank Northeast, Lyons, Nebraska (6221), with	$58,950,000
and The First National Bank of Hooper, Hooper, Nebraska (5297), with	31,954,000
merged October 1, 1994, under charter and title of the former. The merged bank at date of merger had	88,619,000

* * *

NATIONAL WESTMINSTER BANK NEW JERSEY,
Jersey City, New Jersey, and Citizens First National Bank of New Jersey, Ridgewood, New Jersey

Names of institutions and type of transaction	*Total assets*
National Westminster Bank New Jersey, Jersey City, New Jersey (374), with	$7,217,000,000
and Citizens First National Bank of New Jersey, Ridgewood, New Jersey (11759), with	2,526,000,000
merged October 1, 1994, under charter and title of the former. The merged bank at date of merger had	9,992,546,000

* * *

BANK OF OKLAHOMA, NATIONAL ASSOCIATION,
Tulsa, Oklahoma, and Northwest Bank of Enid, Enid, Oklahoma

Names of institutions and type of transaction	*Total assets*
Bank of Oklahoma, National Association, Tulsa, Oklahoma (13679), with	$3,314,910,000
and Northwest Bank of Enid, Enid, Oklahoma, with	50,706,000
merged October 7, 1994, under charter and title of the former. The merged bank at date of merger had	3,362,284,000

* * *

PENNSYLVANIA NATIONAL BANK AND TRUST COMPANY,
Pottsville, Pennsylvania, and American Savings Bank, Tamaqua, Pennsylvania

Names of institutions and type of transaction	*Total assets*
Pennsylvania National Bank and Trust Company, Pottsville, Pennsylvania (1663), with	$967,256,000
and American Savings Bank, Tamaqua, Pennsylvania, with	133,168,000
merged November 1, 1994, under charter and title of the former. The merged bank at date of merger had	1,100,054,000

* * *

CORESTATES BANK, NATIONAL ASSOCIATION,
Philadelphia, Pennsylvania, and Germantown Savings Bank, Bala Cynwyd, Pennsylvania

Names of institutions and type of transaction	*Total assets*
CoreStates Bank, National Association, Philadelphia, Pennsylvania (1), with	$17,390,372,000
and Germantown Savings Bank, Bala Cynwyd, Pennsylvania, with	1,594,663,000
merged December 2, 1994, under charter and title of the former. The merged bank at date of merger had	19,137,834,000

* * *

THE FIRST NATIONAL BANK OF BEEVILLE,
Beeville, Texas, and Yorktown Community Bank, Yorktown, Texas

Names of institutions and type of transaction	*Total assets*
The First National Bank of Beeville, Beeville, Texas (4238), with	$54,186,000
and Yorktown Community Bank, Yorktown, Texas, with	19,728,000
merged October 15, 1994, under charter and title of the former. The merged bank at date of merger had	72,338,000

* * *

FIRST INTERSTATE BANK OF TEXAS, NATIONAL ASSOCIATION,
Houston, Texas, and Park Forest National Bank, Dallas, Texas

Names of institutions and type of transaction	*Total assets*
First Interstate Bank of Texas, National Association, Houston, Texas (17612), with	$6,179,300,000
and Park Forest National Bank, Dallas, Texas (18563), with	22,514,000
merged December 16, 1994, under charter and title of the former. The merged bank at date of merger had	6,200,700,000

* * *

HILLTOP NATIONAL BANK,
Casper, Wyoming, and National Bank of Glenrock, Glenrock, Wyoming

Names of institutions and type of transaction	*Total assets*
Hilltop National Bank, Casper, Wyoming (15359), with	$145,636,000
and National Bank of Glenrock, Glenrock, Wyoming (21000), with	11,978,000
merged November 10, 1994, under charter and title of the former. The merged bank at date of merger had	156,139,000

* * *

Nonaffiliated Mergers (thrift)

ALAMEDA FIRST NATIONAL BANK,
Alameda, California, and Old Stone Bank of California, F.S.B., Hayward, California

Names of institutions and type of transaction	*Total assets*
Alameda First National Bank, Alameda, California (15347), with	$255,000,000
and Old Stone Bank of California, F.S.B., Hayward, California, with	262,000,000
merged December 2, 1994, under charter and title of the former. The merged bank at date of merger had	501,000,000

* * *

FIRST UNION NATIONAL BANK OF WASHINGTON, DC,
Washington, DC, and Home Federal Savings Bank, Washington, DC

Names of institutions and type of transaction	*Total assets*
First Union National Bank of Washington, DC, Washington, DC (15127), with	$1,444,816,000
and Home Federal Savings Bank, Washington, DC, with	232,225,000
merged November 1, 1994, under charter and title of the former. The merged bank at date of merger had	1,677,041,000

* * *

Affiliated Mergers*

COLORADO NATIONAL BANK,
Denver, Colorado, and Green Mountain Bank, Lakewood, Colorado

Names of institutions and type of transaction	*Total assets*
Colorado National Bank, Denver, Colorado (1651), with	$7,163,735,000
and Green Mountain Bank, Lakewood, Colorado, with	29,433,000
merged October 8, 1994, under charter and title of the former. The merged bank at date of merger had	7,196,130,000

* * *

FIRSTBANK OF BOULDER, NATIONAL ASSOCIATION,
Boulder, Colorado, and FirstBank of South Boulder, National Association, Boulder, Colorado

Names of institutions and type of transaction	*Total assets*
FirstBank of Boulder, National Association, Boulder, Colorado (16465), with	$102,742,000
and FirstBank of South Boulder, National Association, Boulder, Colorado (21938), with	33,813,000
merged December 19, 1994, under charter and title of the former. The merged bank at date of merger had	136,555,000

* * *

FIRST NATIONAL BANK AND TRUST COMPANY OF CARBONDALE,
Carbondale, Illinois, and Bank of De Soto, De Soto, Illinois

Names of institutions and type of transaction	*Total assets*
First National Bank and Trust Company of Carbondale, Carbondale, Illinois (12596), with	$142,138,000
and Bank of De Soto, De Soto, Illinois, with	18,808,000
merged October 2, 1994, under charter and title of the former. The merged bank at date of merger had	159,039,000

* * *

FIRST OF AMERICA BANK—NORTHEAST ILLINOIS, NATIONAL ASSOCIATION,
Libertyville, Illinois, and First State Bank and Trust Company of Park Ridge, Park Ridge, Illinois, and Bank of Buffalo Grove, Buffalo Grove, Illinois, and First State Bank of Gurnee, Gurnee, Illinois

Names of institutions and type of transaction	*Total assets*
First of America Bank—Northeast Illinois, National Association, Libertyville, Illinois (15594), with	$1,203,540,000
and First State Bank and Trust Company of Park Ridge, Park Ridge, Illinois, with	181,129,000
and Bank of Buffalo Grove, Buffalo Grove, Illinois, with	140,095,000
and First State Bank of Gurnee, Gurnee, Illinois	3,865,000
merged November 11, 1994, under charter 15594 and title "First of America Bank—Northeast Illinois, National Association." The merged bank at date of merger had	1,571,950,000

* * *

AMERICAN NATIONAL BANK AND TRUST COMPANY OF CHICAGO,
Chicago, Illinois, and American National Bank of Libertyville, Chicago, Illinois

Names of institutions and type of transaction	*Total assets*
American National Bank and Trust Company of Chicago, Chicago, Illinois (13216), with	$5,413,000,000
and American National Bank of Libertyville, Chicago, Illinois (13718), with	270,000,000
merged November 18, 1994, under charter and title of the former. The merged bank at date of merger had	5,483,000,000

* * *

*Affiliated mergers include mergers, consolidations, and purchase and assumptions of affiliated institutions where the resulting bank is a national bank.

BOATMEN'S BANK IOWA, NATIONAL ASSOCIATION,
Des Moines, Iowa, and Boatmen's Bank of Sioux City, Sioux City, Iowa, and Boatmen's Bank of Kalona, Kalona, Iowa, and Boatmen's Bank of Marengo, Marengo, Iowa, and Boatmen's Bank of Sigourney, Sigourney, Iowa

Names of institutions and type of transaction	Total assets
Boatmen's Bank Iowa, National Association, Des Moines, Iowa (22681), with	$587,558,000
and Boatmen's Bank of Sioux City, Sioux City, Iowa, with	28,531,000
and Boatmen's Bank of Kalona, Kalona, Iowa, with	24,523,000
and Boatmen's Bank of Marengo, Marengo, Iowa, with	38,791,000
and Boatmen's Bank of Sigourney, Sigourney, Iowa, with	39,691,000
merged October 14, 1994, under charter 22681 and title "Boatmen's Bank of Iowa, National Association."	
The merged bank at date of merger had	711,130,000

* * *

THE CITIZENS NATIONAL BANK OF CHARLES CITY,
Mason City, Iowa, and The First National Bank of Clarion, Clarion, Iowa, and Osage Farmers National Bank, Osage, Iowa, and Citizens National Bank, New Hampton, Iowa

Names of institutions and type of transaction	Total assets
The Citizens National Bank of Charles City, Mason City, Iowa (4677), with	$133,221,000
and The First National Bank of Clarion, Clarion, Iowa (3796), with	126,566,000
and Osage Farmers National Bank, Osage, Iowa (4885), with	80,423,000
and Citizens National Bank, New Hampton, Iowa (22432), with	36,029,000
merged December 5, 1994, under charter 4677 and title "First Citizens National Bank."	
The merged bank at date of merger had	375,774,000

* * *

THE FIRST NATIONAL BANK OF KINGMAN,
Kingman, Kansas, and The Turon State Bank, Turon, Kansas, and Citizens State Bank, Winfield, Kansas

Names of institutions and type of transaction	Total assets
The First National Bank of Kingman, Kingman, Kansas (3509), with	$54,268,000
and The Turon State Bank, Turon, Kansas, with	15,828,000
and Citizens State Bank, Winfield, Kansas, with	13,000,000
merged October 1, 1994, under charter 3509 and title "Citizens Bank of Kansas, National Association."	
The merged bank at date of merger had	83,126,000

* * *

AMERICAN NATIONAL BANK OF WICHITA,
Wichita, Kansas, and First National Bank in Harper, Harper, Kansas

Names of institutions and type of transaction	Total assets
American National Bank of Wichita, Wichita, Kansas (20192), with	$45,203,000
and First National Bank in Harper, Harper, Kansas (8307), with	32,836,000
merged October 24, 1994, under charter and title of the former. The merged bank at date of merger had	78,841,000

* * *

COMMERCE BANK, NATIONAL ASSOCIATION,
Lenexa, Kansas, and The Twin-City State Bank, Kansas City, Kansas

Names of institutions and type of transaction	Total assets
Commerce Bank, National Association, Lenexa, Kansas (18112), with	$41,897,000
and The Twin-City State Bank, Kansas City, Kansas, with	97,676,000
merged November 19, 1994, under charter and title of the former. The merged bank at date of merger had	142,172,000

* * *

THE PEOPLES FIRST NATIONAL BANK AND TRUST COMPANY OF PADUCAH,
Paducah, Kentucky, and First National Bank of La Center, La Center, Kentucky, and Bank of Murray, Murray, Kentucky, and First Liberty Bank of Calvert City, Calvert City, Kentucky, and The Salem Bank, Salem, Kentucky

Names of institutions and type of transaction	*Total assets*
The Peoples First National Bank and Trust Company of Paducah, Paducah, Kentucky (12961), with	$502,378,000
and First National Bank of La Center, La Center, Kentucky (14693), with	36,641,000
and Bank of Murray, Murray, Kentucky, with	255,920,000
and First Liberty Bank of Calvert City, Calvert City, Kentucky, with	35,112,000
and The Salem Bank, Salem, Kentucky, with	41,494,000
merged November 17, 1994, under charter 12961 and title "Peoples First National Bank and Trust Company."	
The merged bank at date of merger had	871,545,000

* * *

DEPOSIT GUARANTY NATIONAL BANK,
Jackson, Mississippi, and First Columbus National Bank, Columbus, Mississippi

Names of institutions and type of transaction	*Total assets*
Deposit Guaranty National Bank, Jackson, Mississippi (15548), with	$3,881,040,000
and First Columbus National Bank, Columbus, Mississippi (10738), with	208,078,000
merged November 11, 1994, under charter and title of the former. The merged bank at date of merger had	4,053,153,000

* * *

UMB FIRST NATIONAL BANK,
St. Louis, Missouri, and United Missouri Bank of St. Louis, National Association, St. Louis, Missouri

Names of institutions and type of transaction	*Total assets*
UMB First National Bank, St. Louis, Missouri (21727), with	$241,657,000
and United Missouri Bank of St. Louis, National Association, St. Louis, Missouri (21028), with	581,947,000
merged December 12, 1994, under charter and title of the former. The merged bank at date of merger had	824,573,000

* * *

FIRST FIDELITY BANK, NATIONAL ASSOCIATION,
Salem, New Jersey, and First Fidelity Bank, National Association, New York, Riverdale, New York

Names of institutions and type of transaction	*Total assets*
First Fidelity Bank, National Association, Salem, New Jersey (22693), with	$28,578,772,000
and First Fidelity Bank, National Association, New York, Riverdale, New York (22558), with	2,510,663,000
merged October 21, 1994 under charter and title of the former. The merged bank at date of merger had	31,089,435,000

* * *

VALLEY NATIONAL BANK,
Passaic, New Jersey, and Rockbank, North Plainfield, New Jersey

Names of institutions and type of transaction	*Total assets*
Valley National Bank, Passaic, New Jersey (15790), with	$3,501,545,000
and Rockbank, North Plainfield, New Jersey, with	187,219,000
merged November 30, 1994 under charter and title of the former. The merged bank at date of merger had	3,690,000,000

* * *

UNITED NEW MEXICO BANK, NATIONAL ASSOCIATION,

Portales, New Mexico, and United New Mexico Bank at Roswell, Roswell, New Mexico, and United New Mexico Bank at Lea County, Hobbs, New Mexico, and United New Mexico Bank at Alamogordo, Alamogordo, New Mexico, and United New Mexico Bank at Mimbres Valley, Deming, New Mexico, and United New Mexico Bank, National Association, Las Cruces, New Mexico, and United New Mexico Bank, Albuquerque, New Mexico, and United New Mexico Bank, Carlsbad, New Mexico, and United New Mexico Bank, Gallup, New Mexico, and United New Mexico Bank at Vaughn, Vaughn, New Mexico, and United New Mexico Bank, National Association, Socorro, New Mexico, and United New Mexico Trust Company, Albuquerque, New Mexico

Names of institutions and type of transaction	*Total assets*
United New Mexico Bank, National Association, Portales, New Mexico (6187), with	$53,800,000
and United New Mexico Bank at Roswell, Roswell, New Mexico, with	172,800,000
and United New Mexico Bank at Lea County, Hobbs, New Mexico, with	126,300,000
and United New Mexico Bank at Alamogordo, Alamogordo, New Mexico, with	82,100,000
and United New Mexico Bank at Mimbres Valley, Deming, New Mexico, with	59,400,000
and United New Mexico Bank, National Association, Las Cruces, New Mexico (18561), with	84,200,000
and United New Mexico Bank, Albuquerque, New Mexico, with	1,030,100,000
and United New Mexico Bank, Carlsbad, New Mexico, with	107,400,000
and United New Mexico Bank, Gallup, New Mexico, with	61,100,000
and United New Mexico Bank at Vaughn, Vaughn, New Mexico, with	36,800,000
and United New Mexico Bank, National Association, Socorro, New Mexico (16640), with	29,300,000
and United New Mexico Trust Company, Albuquerque, New Mexico, with	2,000,000
merged October 3, 1994, under charter 6187 and title "Norwest Bank New Mexico, National Association." The merged bank at date of merger had	1,832,500,000

* * *

THE FIRST NATIONAL BANK OF GLENS FALLS,

Glens Falls, New York, and The Keeseville National Bank, Keeseville, New York, and Evergreen Bank, Albany, New York

Names of institutions and type of transaction	*Total assets*
The First National Bank of Glens Falls, Glens Falls, New York (980), with	$605,537,000
and The Keeseville National Bank, Keeseville, New York (1753), with	137,165,000
and Evergreen Bank, Albany, New York, with	88,425,000
merged December 1, 1994, under charter 980 and title "Evergreen Bank, National Association." The merged bank at date of merger had	838,718,000

* * *

BANK OF OKLAHOMA, NATIONAL ASSOCIATION,

Tulsa, Oklahoma, and Citizens Bank, Muskogee, Oklahoma

Names of institutions and type of transaction	*Total assets*
Bank of Oklahoma, National Association, Tulsa, Oklahoma (13679), with	$3,314,910,000
and Citizens Bank, Muskogee, Oklahoma, with	142,305,000
merged November 14, 1994, under charter and title of the former. The merged bank at date of merger had	3,457,215,000

* * *

CORESTATES BANK, NATIONAL ASSOCIATION,

Philadelphia, Pennsylvania, and Lehigh Valley Bank, Bethlehem, Pennsylvania

Names of institutions and type of transaction	*Total assets*
CoreStates Bank, National Association, Philadelphia, Pennsylvania (1), with	$17,511,526,000
and Lehigh Valley Bank, Bethlehem, Pennsylvania, with	458,507,000
merged November 18, 1994, under charter and title of the former. The merged bank at date of merger had	17,970,033,000

* * *

CORESTATES BANK, NATIONAL ASSOCIATION,
Philadelphia, Pennsylvania, and Cheltenham Bank, Rockledge, Pennsylvania

Names of institutions and type of transaction	*Total assets*
CoreStates Bank, National Association, Philadelphia, Pennsylvania (1), with	$17,970,033,000
and Cheltenham Bank, Rockledge, Pennsylvania, with	476,065,000
merged November 18, 1994, under charter and title of the former. The merged bank at date of merger had	18,446,098,000

* * *

CORESTATES BANK, NATIONAL ASSOCIATION,
Philadelphia, Pennsylvania, and Bucks County Bank and Trust Company, Perkasie, Pennsylvania

Names of institutions and type of transaction	*Total assets*
CoreStates Bank, National Association, Philadelphia, Pennsylvania (1), with	$18,446,098,000
and Bucks County Bank and Trust Company, Perkasie, Pennsylvania, with	1,174,093,000
merged November 18, 1994, under charter and title of the former. The merged bank at date of merger had	19,620,191,000

* * *

CORESTATES BANK, NATIONAL ASSOCIATION,
Philadelphia, Pennsylvania, and Third National Bank and Trust Company Scranton, Scranton, Pennsylvania

Names of institutions and type of transaction	*Total assets*
CoreStates Bank, National Association, Philadelphia, Pennsylvania (1), with	$19,620,191,000
and Third National Bank and Trust Company Scranton, Scranton, Pennsylvania, with	444,910,000
merged November 18, 1994, under charter and title of the former. The merged bank at date of merger had	20,065,101,000

* * *

NATIONSBANK OF SOUTH CAROLINA, NATIONAL ASSOCIATION,
Columbia, South Carolina, and Rock Hill National Bank, Rock Hill, South Carolina

Names of institutions and type of transaction	*Total assets*
NationsBank of South Carolina, N.A., Columbia, South Carolina (14425), with	$8,945,400,000
and Rock Hill National Bank, Rock Hill, South Carolina (14448), with	257,700,000
merged December 1, 1994 under charter 14448 and title "NationsBank of South Carolina, National Association." The merged bank at date of merger had	9,227,800,000

* * *

UNION PLANTERS BANK OF EAST TENNESSEE, NATIONAL ASSOCIATION,
Knoxville, Tennessee, and Anderson County Bank, Clinton, Tennessee

Names of institutions and type of transaction	*Total assets*
Union Planters Bank of East Tennessee, National Association, Knoxville, Tennessee (22760), with	$222,061,000
and Anderson County Bank, Clinton, Tennessee, with	20,196,000
merged December 1, 1994, under charter and title of the former. The merged bank at date of merger had	242,257,000

* * *

FIRST STATE BANK, NATIONAL ASSOCIATION,
Abilene, Texas, and The First National Bank in Stamford, Stamford, Texas, and The Winters State Bank, Winters, Texas

Names of institutions and type of transaction	*Total assets*
First State Bank, National Association, Abilene, Texas (17614), with	$58,771,000
and The First National Bank in Stamford, Stamford, Texas (13598), with	33,071,000
and The Winters State Bank, Winters, Texas, with	15,450,000
merged November 1, 1994, under charter 17614 and title "First State Bank, National Association." The merged bank at date of merger had	106,781,000

* * *

HUNTINGTON NATIONAL BANK WEST VIRGINIA,
Charleston, West Virginia, and Huntington Bank Martinsburg, National Association, Martinsburg, West Virginia

Names of institutions and type of transaction	Total assets
Huntington National Bank West Virginia, Charleston, West Virginia (14396), with	$1,223,741,000
and Huntington Bank Martinsburg, National Association, Martinsburg, West Virginia (16088), with	134,040,000
merged October 7, 1994, under charter and title of the former. The merged bank at date of merger had	1,228,369,000

* * *

THE FIRST NATIONAL BANK OF BLUEFIELD,
Bluefield, West Virginia, and The Bank of Oceana, Oceana, West Virginia

Names of institutions and type of transaction	Total assets
The First National Bank of Bluefield, West Virginia (4643), with	$194,512,000
and The Bank of Oceana, Oceana, West Virginia, with	45,149,000
merged November 28, 1994, under charter and title of the former. The merged bank at date of merger had	194,512,000

* * *

FIRSTAR BANK MILWAUKEE, NATIONAL ASSOCIATION,
Milwaukee, Wisconsin, and Firstar Bank Lake Geneva, National Association, Elkhorn, Wisconsin

Names of institutions and type of transaction	Total assets
Firstar Bank Milwaukee, National Association, Milwaukee, Wisconsin (64), with	$5,600,000,000
and Firstar Bank Lake Geneva, National Association, Elkhorn, Wisconsin (14873), with	109,181,000
merged November 18, 1994, under charter and title of the former. The merged bank at date of merger had	5,740,000,000

* * *

FIRSTAR BANK MADISON, NATIONAL ASSOCIATION,
Madison, Wisconsin, and Firstar Bank Portage, Portage, Wisconsin

Names of institutions and type of transaction	Total assets
Firstar Bank Madison, National Association, Madison, Wisconsin (144), with	$871,513,000
and Firstar Bank Portage, Portage, Wisconsin, with	75,270,000
merged December 5, 1994, under charter and title of the former. The merged bank at date of merger had	946,783,000

* * *

Structure Tables

Changes in the structure of the national banking system, by state, July 1 to December 31, 1994

	In operation July 1, 1994	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 U.S.C. 214 Converted to non-national institutions	12 U.S.C. 214 Merged with non-national institutions	In operation December 31, 1994
Alabama	51	0	0	0	0	1	1	49
Alaska	4	0	0	0	0	0	0	4
Arizona	13	0	0	0	0	0	0	13
Arkansas	78	0	0	0	0	0	0	78
California	138	0	1	2	0	1	4	130
Colorado	136	0	1	0	0	1	0	134
Connecticut	12	2	0	0	0	0	0	14
Delaware	16	1	0	0	0	0	0	17
District of Columbia	17	0	0	0	0	0	0	17
Florida	126	1	1	0	0	0	1	125
Georgia	74	0	0	1	0	0	1	72
Hawaii	2	0	0	0	0	0	0	2
Idaho	4	0	0	0	0	0	0	4
Illinois	288	0	5	0	0	1	1	281
Indiana	69	0	0	0	0	0	0	69
Iowa	80	0	3	0	0	1	0	76
Kansas	137	1	4	0	0	0	2	132
Kentucky	80	0	1	0	0	0	2	77
Louisiana	39	0	4	0	0	0	0	35
Maine	7	0	0	0	0	0	0	7
Maryland	24	0	0	1	0	1	0	22
Massachusetts	24	0	0	0	0	0	0	24
Michigan	53	0	0	0	0	1	0	52
Minnesota	136	0	2	0	0	1	0	133
Mississippi	27	0	2	0	0	1	0	24
Missouri	63	1	4	0	0	0	1	59
Montana	28	2	0	0	0	2	0	28
Nebraska	103	1	2	0	0	0	0	102
Nevada	8	0	0	0	0	0	0	8
New Hampshire	10	0	0	0	0	0	0	10
New Jersey	38	0	2	0	0	0	2	34
New Mexico	33	0	2	0	0	0	0	31
New York	69	2	2	1	0	0	0	68
North Carolina	14	1	0	0	0	1	0	14
North Dakota	28	0	0	0	0	1	0	27
Ohio	119	0	0	0	0	1	0	118
Oklahoma	121	0	2	0	0	0	0	119
Oregon	7	0	0	0	0	0	1	6
Pennsylvania	134	1	3	0	0	0	1	131
Rhode Island	4	0	0	0	0	0	0	4
South Carolina	27	0	2	1	0	1	0	23
South Dakota	18	1	0	0	0	0	0	19
Tennessee	41	5	0	0	0	0	0	46
Texas	497	0	4	0	0	3	4	486
Utah	8	0	0	0	0	0	0	8
Vermont	10	0	0	0	0	0	0	10
Virginia	37	1	0	0	0	5	0	33
Washington	21	0	0	0	0	0	0	21
West Virginia	60	0	13	0	0	2	1	54
Wisconsin	95	0	2	0	0	1	5	87
Wyoming	21	0	1	0	0	0	0	20
Puerto Rico	1	0	0	0	0	0	0	1
United States	3,250	20	63	6	0	26	27	3,148

The column "organized and opened for business" includes all state banks converted to national banks, all newly formed national banks, and savings and loan associations converted to national banks. The column entitled "merged" includes all mergers, consolidations and purchases and assumptions in which an operating national bank was acquired by another national bank. Also included in this column are immediate FDIC-assisted "merger" transactions. The column entitled "voluntary liquidations" includes only straight liquidations of national banks. No liquidations pursuant to a purchase and assumption transaction are included in this total. Liquidations resulting from purchases and assumptions are included in the "merged" columns. The column entitled "payouts" includes all failed national banks where the FDIC is named receiver and no other depository institution is named as receiver. The column entitled "merged with state banks" includes all mergers, consolidations, and purchases and assumptions where the resulting institution is a state-chartered bank. Also included in this column are immediate FDIC-assisted "merger" transactions where the resulting institution is a state-chartered bank. Nationally chartered bridge banks are not included on this table

Mergers consummated involving two or more nonaffiliated operating banks, January 1 to December 31, 1994

Title and location of banks	*Total assets*
Alabama	
April 15:	
National Bank of Commerce of Birmingham, Birmingham, Alabama (18629), with	$359,080,000
and First American Bank of Pelham, Pelham, Alabama, with	17,951,000
merged under charter and title of the former. The merged bank at date of merger had	375,729,000
Arizona	
January 14:	
National Bank of Tucson, Tucson, Arizona (18440), with	$412,544,000
and Zions First National Bank of Arizona, Mesa, Arizona (21383), with	75,553,000
merged under charter 21383 and title "National Bank of Arizona." The merged bank at date of merger had	488,097,000
April 29:	
National Bank of Tucson, Tucson, Arizona (21383), with	$516,720,000
and Rio Salado Bank, Tempe, Arizona, with	107,299,000
merged under charter and title of the former. The merged bank at date of merger had	624,109,000
April 30:	
First Interstate Bank of Arizona, National Association, Phoenix, Arizona (3728), with	$7,180,610,000
and Chase Bank of Arizona, Scottsdale, Arizona, with	527,259,000
merged under charter and title of the former. The merged bank at date of merger had	7,707,869,000
California	
July 29:	
Metro Commerce Bank, National Association, San Rafael, California (21982), with	$64,175,000
and Bank of Hayward, Hayward, California, with	18,838,000
merged under charter and title of the former. The merged bank at date of merger had	83,300,000
September 30:	
San Jose National Bank, San Jose, California (17315), with	$130,841,000
and California Business Bank, National Association, San Jose, California (17382), with	67,797,000
merged under charter and title of the former. The merged bank at date of merger had	199,212,000
November 4:	
National Bank of the Redwoods, Santa Rosa, California (18541), with	$156,944,000
and Codding Bank, Rohnert Park, California, with	50,449,000
merged under charter and title of the former. The merged bank at date of merger had	202,337,000
Colorado	
April 12:	
The First National Bank of Gunnison, Gunnison, Colorado (2686), with	$56,578,000
and Crested Butte State Bank, Crested Butte, Colorado, with	32,395,000
merged under charter and title of the former. The merged bank at date of merger had	88,879,000
May 16:	
The Rocky Ford National Bank, Rocky Ford, Colorado (9117), with	$19,805,000
and J.N. Beaty and Company, Bankers, Manzanola, Colorado, with	5,142,000
merged under charter and title of the former. The merged bank at date of merger had	24,947,000
Connecticut	
June 27	
Shawmut Bank Connecticut, National Association, Hartford, Connecticut (1338), with	$13,482,051,000
and Gateway Bank, Norwalk, Connecticut, with	1,281,716,000
merged under charter and title of the former. The merged bank at date of merger had	14,763,767,000
Florida	
April 29	
First Mercantile National Bank, Longwood, Florida (21591), with	$59,211,000
and Central National Bank, Winter Park, Florida (21230), with	31,515,000
merged under charter and title of the former. The merged bank at date of merger had	96,300,000
Georgia	
July 28	
SouthTrust Bank of Columbus, National Association, Columbus, Georgia (21473), with	$70,332,000
and First Columbus Community Bank and Trust Company, Columbus, Georgia, with	57,035,000
merged under charter and title of the former. The merged bank at date of merger had	127,367,000

Mergers consummated involving two or more nonaffiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	Total assets
December 2:	
Southwest Georgia Bank, National Association, Moultrie, Georgia (13161), with	$188,635,000
and Baker County Bank, Newton, Georgia, with	16,251,000
merged under charter and title of the former. The merged bank at date of merger had	202,192,000
Idaho	
July 15:	
First Security Bank of Idaho, National Association, Boise, Idaho (14444), with	$3,330,126,000
and American Bank of Commerce, Boise, Idaho, with	70,292,000
merged under charter and title of the former. The merged bank at date of merger had	3,393,529,000
Illinois	
October 4:	
First Mid-Illinois Bank and Trust, National Association, Mattoon, Illinois (10045), with	$296,783,000
and Downstate National Bank, Altamont, Illinois (13993), with	53,495,000
merged under charter and title of the former. The merged bank at date of merger had	356,781,000
Iowa	
January 7:	
The First National Bank of Missouri Valley, Missouri Valley, Iowa (3189), with	$36,135,000
and Mondamin Savings Bank, Mondamin, Iowa, with	6,531,000
merged under charter and title of the former. The merged bank at date of merger had	42,811,000
Kansas	
February 1:	
First National Bank, Abilene Kansas (3777), with	$52,726,000
and Citizens Bank and Trust Company, Abilene, Kansas, with	48,596,000
merged under charter and title of the former. The merged bank at date of merger had	100,693,000
April 11:	
First National Bank, Goodland, Kansas (14163), with	$99,300,000
and The Cheyenne County State Bank, St. Francis, Kansas, with	32,920,000
merged under charter and title of the former. The merged bank at date of merger had	126,198,000
May 31:	
Bank IV Kansas, National Association, Wichita, Kansas (12490), with	$4,931,279,000
and Emprise Bank, National Association, Hutchinson, Kansas (10765), with	259,544,000
merged charter and title of the former. The merged bank at date of merger had	5,157,791,000
June 30:	
Bank IV Kansas, National Association, Wichita, Kansas (12490), with	$5,106,079,000
and First National Bank and Trust in Dodge City, Dodge City, Kansas (7285), with	104,790,000
merged under charter and title of the former. The merged bank at date of merger had	5,211,359,000
August 1:	
Farmers National Bank, Phillipsburg, Kansas (11933), with	$37,302,000
and The First National Bank of Kensington, Kensington, Kansas (7493), with	11,880,000
merged under charter and title of the former. The merged bank at date of merger had	47,447,000
Louisiana	
April 30:	
Premier Bank, National Association, Baton Rouge, Louisiana (13655), with	$4,111,632,000
and National Bank of Commerce of Lake Charles, Lake Charles, Louisiana (17663), with	84,847,000
merged under charter and title of the former. The merged bank at date of merger had	4,196,479,000
June 24:	
Premier Bank, National Association, Baton Rouge, Louisiana (13655), with	$4,212,360,000
and Ruston State Bank and Trust Company, Ruston, Louisiana, with	223,025,000
and Heritage Bank of Natchitoches, Natchitoches, Louisiana, with	82,443,000
and Heritage Bank of Morehouse, Bastrop, Louisiana, with	92,133,000
and The D'Arbonne Bank and Trust Company, Farmerville, Louisiana, with	41,620,000
merged under charter 13655 and title "Premier Bank, National Association." The merged bank at date of merger had	4,730,798,000

Mergers consummated involving two or more nonaffiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
July 1:	
Hibernia National Bank, New Orleans, Louisiana (13688), with	$4,567,998,000
and Bastrop National Bank, Bastrop, Louisiana (14645), with	123,484,000
merged under charter and title of the former. The merged bank at date of merger had	4,691,482,000
August 25:	
Premier Bank, National Association, Baton Rouge, Louisiana (13655), with	$4,803,994,000
and Red River Valley Bank, Bossier City, Louisiana, with	144,943,000
merged under charter and title of the former. The merged bank at date of merger had	4,951,494,000
Maryland	
November 29:	
First Fidelity Bank, National Association, Elkton, Maryland (22693), with	$31,106,235,000
and The Bank of Baltimore, Baltimore, Maryland, with	2,109,501,000
merged under charter and title of the former. The merged bank at date of merger had	33,215,736,000
Massachusetts	
May 23:	
Shawmut Bank, National Association, Boston, Massachusetts (15509), with	$13,409,650,000
and Peoples Savings Bank, Worcester, Massachusetts, with	896,805,000
merged under charter and title of the former. The merged bank at date of merger had	14,307,217,000
August 19:	
The First National Bank of Boston, Boston, Massachusetts (200), with	$29,551,668,000
and Pioneer Financial, Malden, Massachusetts, with	773,097,000
merged under charter and title of the former. The merged bank at date of merger had	30,296,174,000
September 30:	
Shawmut Bank, National Association, Boston, Massachusetts (15509), with	$13,306,921,000
and West Newton Savings Bank, West Newton, Massachusetts, with	254,077,000
merged under charter and title of the former. The merged bank at date of merger had	13,536,445,000
September 30:	
Shawmut Bank, National Association, Boston, Massachusetts (15509), with	$13,536,445,000
and Cohasset Savings Bank, Cohasset, Massachusetts, with	78,188,000
merged under charter and title of the former. The merged bank at date of merger had	13,614,633,000
Mississippi	
October 7:	
Trustmark National Bank, Jackson, Mississippi (10523), with	$4,538,586,000
and First National Bank of Vicksburg, Vicksburg, Mississippi (3258), with	299,291,000
merged under charter and title of the former. The merged bank at date of merger had	4,834,959,000
Missouri	
August 11:	
Bank Midwest, National Association, Maryville, Missouri (21815), with	$633,384,000
and Truman National Bank and Trust Company, Grandview, Missouri (22757), with	50,497,000
merged under charter 22757 and title "Bank Midwest, National Association." The merged bank at date of merger had	684,894,000
October 1:	
Commerce Bank, National Association, Columbia, Missouri (16949), with	$348,516,000
and The Moniteau National Bank of California, California, Missouri (1712), with	32,536,000
merged under charter and title of the former. The merged bank at date of merger had	381,754,000
October 1	
The First National Bank of Mexico, Mexico, Missouri (2881), with	$62,390,000
and Laddonia State Bank, Mexico, Missouri, with	33,810,000
merged under charter and title of the former The merged bank at date of merger had	96,625,000
Nebraska	
August 1	
First National Bank, North Platte, Nebraska (3496), with	$335,494,000
and Alliance National Bank and Trust Company, Alliance, Nebraska (5657), with	48,783,000
merged under charter and title of the former The merged bank at date of merger had	383,731,000

Mergers consummated involving two or more nonaffiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
October 1:	
First National Bank Northeast, Lyons, Nebraska (6221), with	$58,950,000
and The First National Bank of Hooper, Hooper, Nebraska (5297), with	31,954,000
merged under charter and title of the former. The merged bank at date of merger had	88,619,000
New Jersey	
March 25:	
First Fidelity Bank, National Association, Salem, New Jersey (22693), with	$29,817,000,000
and First Peoples National Bank, Edwardsville, New Jersey (9862), with	101,632,000
merged under charter and title of the former. The merged bank at date of merger had	29,933,000,000
June 29:	
Sun National Bank, Medford, New Jersey (18606), with	$110,252,000
and The First National Bank of Tuckahoe, Tuckahoe, New Jersey (14189), with	51,741,000
merged under charter and title of the former. The merged bank at date of merger had	157,348,000
July 29:	
Sun National Bank, Medford, New Jersey (18606), with	$112,016,000
and Southern Ocean State Bank, Tuckerton, New Jersey, with	69,000,000
merged under charter and title of the former. The merged bank at date of merger had	181,740,000
October 1:	
National Westminster Bank New Jersey, Jersey City, New Jersey (374), with	$7,217,000,000
and Citizens First National Bank of New Jersey, Ridgewood, New Jersey (11759), with	2,526,000,000
merged under charter and title of the former. The merged bank at date of merger had	9,992,546,000
New York	
January 1:	
Wilbur National Bank, Oneonta, New York (2151), with	$381,344,000
and The First National Bank of Downsville, Downsville, New York (7878), with	60,322,000
merged under charter and title of the former. The merged bank at date of merger had	434,271,000
March 31:	
The Bath National Bank, Bath, New York (10235), with	$204,473,000
and Atlanta National Bank, Atlanta, New York (12071), with	15,305,000
merged under charter and title of the former. The merged bank at date of merger had	218,453,000
April 8:	
The Fishkill National Bank and Trust Company, Poughkeepsie, New York (35), with	$296,290,000
and The First National Bank of Amenia, Amenia, New York (706), with	15,439,000
merged under charter and title of the former. The merged bank at date of merger had	310,290,000
April 11:	
The Suffolk County National Bank of Riverhead, Riverhead, New York (4230), with	$616,803,000
and The Bank of the Hamptons, National Association, South Hampton, New York (15464), with	165,014,000
merged under charter and title of the former. The merged bank at date of merger had	780,902,000
May 12:	
First Fidelity Bank, National Association, New York, Riverdale, New York (22558), with	$990,982,000
and The Savings Bank of Rockland County, Spring Valley, New York, with	185,411,000
merged under charter and title of the former. The merged bank at date of merger had	1,176,393,000
North Dakota	
September 9:	
First Bank of North Dakota, National Association, Fargo, North Dakota (13323), with	$813,919,000
and United Bank of Bismarck, Bismarck, North Dakota, with	127,374,000
merged under charter and title of the former. The merged bank at date of merger had	941,217,000
Ohio	
June 4:	
Mid-American National Bank and Trust Company, Bowling Green, Ohio (15416), with	$703,941,000
and Farmers Savings Bank, Northwood, Ohio, with	65,389,000
merged under charter and title of the former. The merged bank at date of merger had	769,330,000

Mergers consummated involving two or more nonaffiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	Total assets
Oklahoma	
May 2:	
Bank of Oklahoma, National Association, Tulsa, Oklahoma (13679), with	$2,911,676,000
and Plaza National Bank of Bartlesville, Bartlesville, Oklahoma (15177), with	92,877,000
merged under charter and title of the former. The merged bank at date of merger had	2,995,455,000
June 30:	
Bank IV Oklahoma, National Association, Tulsa, Oklahoma (18308), with	$2,413,895,000
and Metro Bank of Broken Arrow, Broken Arrow, Oklahoma, with	44,028,000
merged under charter and title of the former. The merged bank at date of merger had	2,458,774,000
October 7:	
Bank of Oklahoma, National Association, Tulsa, Oklahoma (13679), with	$3,314,910,000
and Northwest Bank of Enid, Enid, Oklahoma, with	50,706,000
merged under charter and title of the former. The merged bank at date of merger had	3,362,284,000
Pennsylvania	
June 17:	
PNC Bank, National Association, Pittsburgh, Pennsylvania (252), with	$36,244,485,000
and First Eastern Bank, National Association, Wilkes-Barre, Pennsylvania (30), with	2,061,393,000
merged under charter and title of the former. The merged bank at date of merger had	38,305,878,000
July 1:	
Portage National Bank, Portage, Pennsylvania (14490), with	$101,189,000
and First National Bank at Gallitzin, Gallitzin, Pennsylvania (14181), with	15,435,000
merged under charter and title of the former. The merged bank at date of merger had	116,624,000
November 1:	
Pennsylvania National Bank and Trust Company, Pottsville, Pennsylvania (1663), with	$967,256,000
and American Savings Bank, Tamaqua, Pennsylvania, with	133,168,000
merged under charter and title of the former. The merged bank at date of merger had	1,100,054,000
December 2:	
CoreStates Bank, National Association, Philadelphia, Pennsylvania (1), with	$17,390,372,000
and Germantown Savings Bank, Bala Cynwyd, Pennsylvania, with	1,594,663,000
merged under charter and title of the former. The merged bank at date of merger had	19,137,834,000
South Carolina	
August 1:	
Marion National Bank, Marion, South Carolina (10085), with	$58,601,000
and The Davis National Bank of Mullins, Mullins, South Carolina (14341), with	56,291,000
merged under charter and title of the former. The merged bank at date of merger had	120,928,000
Texas	
January 3:	
The First National Bank of Hughes Springs, Hughes Springs, Texas (6922), with	$62,600,000
and The First National Bank of Atlanta, Atlanta, Texas (4922), with	42,027,000
merged under charter and title of the former. The merged bank at date of merger had	104,000,000
February 28	
NationsBank of Texas, National Association, Dallas, Texas (21834), with	$40,288,142,000
and New Corpus Christi National Bank, Corpus Christi, Texas (4423), with	731,267,000
merged under charter and title of the former. The merged bank at date of merger had	40,994,409,000
March 7	
Bank One Texas, National Association, Dallas, Texas (21969), with	$17,785,887,000
and Parkdale Bank, Beaumont, Texas, with	68,103,000
merged under charter and title of the former. The merged bank at date of merger had	17,871,118,000
April 14	
The Frost National Bank of San Antonio, San Antonio, Texas (5179), with	$2,876,932,000
and Texas Commerce Bank—Corpus Christi, National Association, Corpus Christi, Texas (14988), with	173,852,000
merged under charter and title of the former. The merged bank at date of merger had	3,053,031,000

Mergers consummated involving two or more nonaffiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
April 14:	
Texas Commerce Bank, National Association, Houston, Texas (10225), with	$20,818,712,000
and Cullen/Frost Bank of Dallas, National Association, Dallas, Texas (15280), with	162,256,000
merged under charter and title of the former. The merged bank at date of merger had	$20,979,027,000
April 29:	
First Interstate Bank of Texas, National Assocation, Houston, Texas (17612), with	$5,497,707,000
and The Bank of the West, Austin, Texas, with	244,359,000
merged under charter and title of the former. The merged bank at date of merger had	5,731,920,000
May 31:	
Peoples National Bank, McKinney, Texas (20420), with	$8,253,000
and United Bank and Trust, Dallas, Texas, with	50,636,000
merged under charter 20420 and title "United Bank and Trust, National Association." The merged bank at date of merger had	58,640,000
May 31:	
Surety Bank, National Association, Lufkin, Texas (15187), with	$48,586,000
and The Farmers Guaranty State Bank of Kennard, Kennard, Texas, with	15,345,000
merged under charter and title of the former. The merged bank at date of merger had	63,902,000
May 31:	
First Interstate Bank of Texas, National Association, Houston, Texas (17612), with	$5,732,060,000
and Mesquite National Bank, Mesquite, Texas (17970), with	45,892,000
merged under charter and title of the former. The merged bank at date of merger had	5,775,110,000
September 19:	
American National Bank of Terrell, Terrell, Texas (4990), with	$308,256,000
and First National Bank of Allen, Texas (17043), with	44,579,000
merged under charter 17043 and title "American National Bank of Texas." The merged bank at date of merger had	349,678,000
October 15:	
The First National Bank of Beeville, Beeville, Texas (4238), with	$54,186,000
and Yorktown Community Bank, Yorktown, Texas, with	19,728,000
merged under charter and title of the former. The merged bank at date of merger had	72,338,000
December 16:	
First Interstate Bank of Texas, National Association, Houston, Texas (17612), with	$6,179,300,000
and Park Forest National Bank, Dallas, Texas (18563), with	22,514,000
merged under charter and title of the former. The merged bank at date of merger had	6,200,700,000
Utah	
May 2:	
Bank One Utah, National Association, Salt Lake City, Utah (18785), with	$860,064,000
and Capital City Bank, Salt Lake City, Utah, with	121,815,000
merged under charter and title of the former. The merged bank at date of merger had	981,154,000
May 19:	
First Security Bank of Utah, National Association, Ogden, Utah (2597), with	$4,812,699,000
and Community First Bank, Clearfield, Utah, with	79,956,000
merged under charter and title of the former. The merged bank at date of merger had	4,892,655,000
Virginia	
August 18:	
Jefferson National Bank, Charlottesville, Virginia (6031), with	$1,883,238,000
and Bank of Loudon, Leesburg, Virginia, with	55,959,000
merged under charter and title of the former. The merged bank at date of merger had	1,939,197,000
Wisconsin	
May 25:	
Citizens Bank, National Association, Shawano, Wisconsin (21289), with	$120,429,000
and Farmers and Merchants Bank, Greenwood, Wisconsin, with	25,360,000
merged under charter and title of the former. The merged bank at date of merger had	145,789,000

Mergers consummated involving two or more nonaffiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
Wyoming	
November 10:	
Hilltop National Bank, Casper, Wyoming (15359), with	$145,636,000
and National Bank of Glenrock, Glenrock, Wyoming (21000), with	11,978,000
merged under charter and title of the former. The merged bank at date of merger had	156,139,000

Mergers consummated involving nonaffiliated national banks and savings and loan associations, January 1 to December 31, 1994

Title and location of banks	*Total assets*
Arizona	
May 13:	
Bank One Arizona, National Association, Phoenix, Arizona (14324), with	$11,178,117,000
and Great American Federal Savings Assocation, San Diego, Arizona, with	1,557,747,000
merged under charter and title of the former. The merged bank at date of merger had	12,735,864,000
Arkansas	
February 15:	
First National City Bank of Eastern Arkansas, Forrest City, Arkansas (13637), with	$147,534,000
and Wynbanc Savings, F.S.B., Wynne, Arkansas, with	34,289,000
merged under charter and title of the former. The merged bank at date of merger had	179,287,000
California	
December 2:	
Alameda First National Bank, Alameda, California (15347), with	$255,000,000
and Old Stone Bank of California, F.S.B., Hayward, California, with	262,000,000
merged under charter and title of the former. The merged bank at date of merger had	501,000,000
District of Columbia	
November 1:	
First Union National Bank of Washington, DC, Washington, DC (15127), with	$1,444,816,000
and Home Federal Savings Bank, Washington, DC, with	232,225,000
merged under charter and title of the former. The merged bank at date of merger had	1,677,041,000
Illinois	
February 25:	
The First National Bank in Staunton, Staunton, Illinois (14310), with	$95,000,000
and Lemont Federal Savings and Loan, Lemont, Illinois, with	80,000,000
merged under charter and title of the former. The merged bank at date of merger had	121,000,000
Kansas	
April 4:	
Union National Bank of Wichita, Wichita, Kansas (11010), with	$537,127,,000
and First Community Federal Savings and Loan Association, Winfield, Kansas, with	169,807,000
merged under charter and title of the former. The merged bank at date of merger had	701,087,000
March 11:	
Sunflower Bank, National Association, Salina, Kansas (4742), with	$395,815,000
and Pioneer Federal Savings and Loan Association, Prairie Village, Kansas, with	47,914,000
merged under charter and title of the former. The merged bank at date of merger had	443,729,000
Massachusetts	
May 28:	
The First National Bank of Boston, Boston, Massachusetts (200), with	$27,712,439,000
and Worcester County Institution for Savings, Worcester, Massachusetts, with	1,455,536,000
merged under charter and title of the former. The merged bank at date of merger had	29,364,120,000
New Jersey	
January 28:	
Midlantic National Bank, Newark, New Jersey (1316), with	$9,670,377,000
and Carteret Federal Savings Bank, Newark, New Jersey, with	15,380,000
merged under charter and title of the former. The merged bank at date of merger had	9,686,052,000
North Carolina	
February 24:	
Southern National Bank of North Carolina, Lumberton, North Carolina (10610), with	$4,809,000
and Home Federal Savings Bank, F.S.B., Statesville, North Carolina, with	100,000
merged under charter and title of the former. The merged bank at date of merger had	4,907,000
May 31:	
First Union National Bank of North Carolina, Charlotte, North Carolina (15650), with	$20,594,000,000
and American Commercial Savings Bank, Monroe, North Carolina, with	242,000,000
merged under charter and title of the former. The merged bank at date of merger had	20,836,000,000

Mergers consummated involving nonaffiliated national banks and savings and loan associations, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
Ohio	
September 16:	
Society National Bank, Cleveland, Ohio (14761), with	$22,618,203,000
and State Home Savings Bank, F.S.B., Bowling Green, Ohio, with	337,556,000
merged under charter and title of the former. The merged bank at date of merger had	22,618,203,000
Oklahoma	
May 26:	
Bank IV Oklahoma, National Association, Tulsa, Oklahoma (18308), with	$1,889,207,000
and Equity Bank for Savings, Federal Association, Oklahoma City, Oklahoma, with	521,608,000
merged under charter and title of the former. The merged bank at date of merger had	2,408,155,000
Pennsylvania	
January 21:	
PNC Bank, National Association, Pittsburgh, Pennsylvania (252), with	$29,749,980,000
and United Federal Savings Bank, State College, Pennsylvania, with	899,979,000
merged under charter and title of the former. The merged bank at date of merger had	30,747,980,000
South Carolina	
January 28:	
Southern National Bank of South Carolina, Columbia, South Carolina (15134), with	$647,000,000
and The First Savings Bank, F.S.B., Greenville, South Carolina, with	2,086,000,000
merged under charter and title of the former. The merged bank at date of merger had	2,699,000,000
Virginia	
March 25:	
Jefferson National Bank, Charlottesville, Virginia (6031), with	$1,886,778,000
and Liberty Federal Savings Bank, Warrenton, Virginia, with	24,536,000
merged under charter and title of the former. The merged bank at date of merger had	1,911,314,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994

Title and location of banks	*Total assets*
Colorado	
January 1:	
Norwest Bank Denver, National Association, Denver, Colorado (3269), with	$1,760,812,000
and Norwest Bank Southglenn, N.A., Littleton, Colorado (15433), with	106,635,000
and Norwest Bank Southwest Plaza, N.A., Littleton, Colorado (17088), with	42,813,000
and Norwest Bank Arapahoe, N.A., Englewood, Colorado (17017), with	112,116,000
and Norwest Bank Arvada, N.A., Arvada, Colorado (16747), with	88,034,000
and Norwest Bank Aurora, N.A., Aurora, Colorado (21822), with	68,211,000
and Norwest Bank Aurora—City Center, N.A., Aurora, Colorado (18034), with	21,561,000
and Norwest Bank Aurora—South, N.A., Aurora, Colorado (21824), with	47,042,000
and Norwest Bank Bear Valley, N.A., Denver, Colorado (15332), with	165,960,000
and Norwest Bank Broomfield, N.A., Broomfield, Colorado (21825), with	81,110,000
and Norwest Bank Buckingham Square, N.A., Aurora, Colorado (16244), with	62,725,000
and Norwest Bank Cherry Creek, N.A., Denver, Colorado (17361), with	93,318,000
and Norwest Bank Highlands Ranch, N.A., Highlands Ranch, Colorado (17887), with	41,937,000
and Norwest Bank Lakewood, N.A., Lakewood, Colorado (15079), with	156,376,000
and Norwest Bank Littleton, N.A., Littleton, Colorado (21829), with	164,025,000
and Norwest Bank Monaco, N.A., Denver, Colorado (16475), with	86,027,000
and Norwest Bank Northglenn, N.A., Northglenn, Colorado (15203), with	110,155,000
merged under charter 3269 and title "Norwest Bank Colorado, National Association." The merged bank at date of merger had	3,763,900,000
March 21:	
Norwest Bank Colorado Springs, National Association, Colorado Springs, Colorado (8572), with	$363,584,000
and FirstAmerican Bank, National Association, Colorado Springs, Colorado (18526), with	46,508,000
merged under charter and title of the former. The merged bank at date of merger had	411,681,000
June 20:	
Norwest Bank Denver, National Association, Denver, Colorado (3269), with	$3,977,841,000
and First National Bank of Arapahoe County, Aurora, Colorado (17798), with	36,650,000
and First National Bank of Lakewood, Lakewood, Colorado (17362), with	63,163,000
and First National Bank of Southeast Denver, Denver, Colorado (17757), with	135,733,000
merged under charter 3269 and title "Norwest Bank Denver, National Association." The merged bank at date of merger had	4,213,387,000
October 8:	
Colorado National Bank, Denver, Colorado (1651), with	$7,163,735,000
and Green Mountain Bank, Lakewood, Colorado, with	29,433,000
merged under charter and title of the former. The merged bank at date of merger had	7,196,130,000
December 19:	
FirstBank of Boulder, National Association, Boulder, Colorado (16465), with	$102,742,000
and FirstBank of South Boulder, National Association, Boulder, Colorado (21938), with	33,813,000
merged under charter and title of the former. The merged bank at date of merger had	136,555,000
Florida	
April 1:	
CNB National Bank, Lake City, Florida (20496), with	$98,349,000
and First National Bank of Bradford County, Starke, Florida (22005), with	15,655,000
merged under charter and title of the former. The merged bank at date of merger had	114,004,000
July 1:	
Society National Trust Company, Naples, Florida (21914), with	$5,071,000
and Key Trust Company of Florida, National Association, Orlando, Florida (17787), with	554,000
merged under charter and title of the former. The merged bank at date of merger had	5,071,000
Georgia	
March 18:	
Bank South, National Association, Atlanta, Georgia (9617), with	$5,533,292,000
and The Merchant Bank of Atlanta, Atlanta, Georgia, with	147,114,000
merged under charter and title of the former. The merged bank at date of merger had	5,680,406,000
April 7:	
Bank South, National Association, Atlanta, Georgia (9617), with	$5,533,292,000
and The Chattahoochee Bank, Marietta, Georgia, with	250,678,000
merged under charter and title of the former. The merged bank at date of merger had	5,957,453,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	Total assets
July 1:	
Trust Company Bank of South Georgia, National Association, Albany, Georgia (14907), with	$387,129,000
and Trust Company Bank of Coffee County, Douglas, Georgia, with	114,913,000
merged under charter and title of the former. The merged bank at date of merger had	503,532,000
July 22:	
Bank South, National Association, Atlanta, Georgia (9617), with	$5,530,263,000
and The Citizens Bank, Gainesville, Georgia, with	98,944,000
merged under charter and title of the former. The merged bank at date of merger had	5,629,207,000
Illinois	
January 10:	
Peoples National Bank of Kewanee, Kewanee, Illinois (14418), with	$109,429,000
and Bradford Banking Company, Bradford, Illinois, with	14,347,000
merged under charter and title of the former. The merged bank at date of merger had	124,311,000
February 1:	
Commerce Bank, National Association, Peoria, Illinois (176), with	$363,996,000
and Commerce Bank of Tazewell County, National Association, Delavan, Illinois (3781), with	31,674,000
and Commerce Bank of Woodford County, National Association, Metamora, Illinois (14469), with	93,061,000
merged under charter 176 and title "Commerce Bank, National Association." The merged bank at date of merger had	488,731,000
February 11:	
Citizens First National Bank, Princeton, Illinois (2413), with	$234,139,000
and Citizens First National Bank of Genoa, Genoa, Illinois (18743), with	40,997,000
merged under charter and title of the former. The merged bank at date of merger had	275,136,000
February 21:	
Gurnee National Bank, Gurnee, Illinois (15978), with	$81,710,000
and American National Bank and Trust Company of Waukegan, Waukegan, Illinois, with	184,714,000
merged under charter 15978 and title "Grand National Bank." The merged bank at date of merger had	266,424,000
April 23:	
Boulevard Bank, National Association, Chicago, Illinois (13672), with	$589,999,000
and The First National Bank of Des Plaines, Des Plaines, Illinois (10319), with	526,352,000
and The National Security Bank of Chicago, Chicago, Illinois (13691), with	222,335,000
and Citizens National Bank of Downers Grove, Downers Grove, Illinois (14738), with	163,882,000
merged under charter 13672 and title "First Bank, National Association." The merged bank at date of merger had	1,473,322,000
June 1:	
Uptown National Bank of Moline, Moline, Illinois (14717), with	$50,106,000
and First Bank and Trust Company, Cairo, Illinois, with	40,991,000
merged under charter 14717 and title "Midamerica Bank, National Association." The merged bank at date of merger had	91,097,000
July 1:	
First National Bank in Shawneetown, Shawneetown, Illinois (14265), with	$32,410,000
and First National Bank in Golconda, Golconda, Illinois (14173), with	28,376,000
and First National Bank in Elizabethtown, Illinois (22264), with	15,335,000
merged under charter 14265 and title "Illinois One Bank, National Association." The merged bank at date of merger had	76,121,000
July 9	
The First National Bank of Chicago, Chicago, Illinois (8), with	$34,491,000,000
and Lake Shore National Bank, Chicago, Illinois (14475), with	1,071,000,000
and Bank of Hinsdale, Hinsdale, Illinois, with	183,000,000
merged under charter and title of the former. The merged bank at date of merger had	35,745,000,000
October 2	
First National Bank and Trust Company of Carbondale, Carbondale, Illinois (12596), with	$142,138,000
and Bank of De Soto, De Soto, Illinois, with	18,808,000
merged under charter and title of the former. The merged bank at date of merger had	159,039,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	Total assets
November 11:	
First of America Bank—Northeast Illinois, National Association, Libertyville, Illinois (15594), with	$1,203,540,000
and First State Bank and Trust Company of Park Ridge, Park Ridge, Illinois, with	181,129,000
and Bank of Buffalo Grove, Buffalo Grove, Illinois, with	140,095,000
and First State Bank of Gurnee, Gurnee, Illinois, with	3,865,000
merged under charter 15594 and title "First of America Bank—Northeast Illinois, National Association." The merged bank at date of merger had	1,571,950,000
November 18:	
American National Bank and Trust Company of Chicago, Chicago, Illinois (13216), with	$5,413,000,000
and American National Bank of Libertyville, Chicago, Illinois (13718), with	270,000,000
merged under charter and title of the former. The merged bank at date of merger had	5,483,000,000
Indiana	
March 1:	
Norwest Bank Indiana, National Association, South Bend, Indiana (13987), with	$219,298,000
and Norwest Bank Fort Wayne, National Association, Fort Wayne, Indiana (7725), with	1,035,083,000
and Norwest Bank Angola, Angola, Indiana, with	87,501,000
and Norwest Bank Bluffton, Bluffton, Indiana, with	78,575,000
and The First State Bank of Decatur, Decatur, Indiana, with	106,116,000
and Norwest Bank Monticello, Monticello, Indiana, with	116,723,000
and Norwest Bank Peru, Peru, Indiana, with	84,410,000
and Norwest Bank Rochester, Rochester, Indiana, with	96,630,000
and Norwest Bank Rushville, National Association, Rushville, Indiana (1869), with	79,977,000
and Norwest Bank Shipshewana, Shipshewana, Indiana, with	152,642,000
and Norwest Bank Wabash, National Association, Wabash, Indiana (13888), with	87,982,000
merged under charter 13987 and title "Norwest Bank Indiana, National Association." The merged bank at date of merger had	2,113,055,000
August 30:	
The Citizens National Bank of Evansville, Evansville, Indiana (2188), with	$1,243,271,000
and First Bank and Trust Company of Oakland City, Oakland City, Indiana, with	31,486,000
merged under charter and title of the former. The merged bank at date of merger had	1,274,757,000
Iowa	
January 1:	
Boatmen's National Bank of Iowa, Urbandale, Iowa (22681), with	$102,221,000
and Boatmen's National Bank of Des Moines, Des Moines, Iowa (13321), with	466,161,000
and Boatmen's Bank of Greenfield, Greenfield, Iowa, with	42,824,000
merged under charter 22681 and title "Boatmen's National Bank of Iowa." The merged bank at date of merger had	595,346,000
October 14:	
Boatmen's Bank Iowa, National Association, Des Moines, Iowa (22681), with	$587,558,000
and Boatmen's Bank of Sioux City, Sioux City, Iowa, with	28,531,000
and Boatmen's Bank of Kalona, Kalona, Iowa, with	24,523,000
and Boatmen's Bank of Marengo, Marengo, Iowa, with	38,791,000
and Boatmen's Bank of Sigourney, Sigourney, Iowa, with	39,691,000
merged under charter 22681 and title "Boatmen's Bank of Iowa, National Association." The merged bank at date of merger had	711,130,000
December 5:	
The Citizens National Bank of Charles City, Mason City, Iowa (4677), with	$133,221,000
and The First National Bank of Clarion, Clarion, Iowa (3796), with	126,566,000
and Osage Farmers National Bank, Osage, Iowa (4885), with	80,423,000
and Citizens National Bank, New Hampton, Iowa (22432), with	36,029,000
merged under charter 4677 and title "First Citizens National Bank." The merged bank at date of merger had	375,774,000
Kansas	
January 3:	
The Stockton National Bank, Stockton, Kansas (7815), with	$37,002,000
and Rooks County State Bank, Woodston, Kansas, with	6,867,000
merged under charter and title of the former. The merged bank at date of merger had	43,419,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
April 1:	
Central National Bank, Junction City, Kansas (4284), with	$112,624,000
and Central National Bank—Newton, Newton, Kansas (22496), with	64,770,000
and Central Bank—Herington, Herington, Kansas, with	43,314,000
merged under charter 4284 and title "Central National Bank." The merged bank at date of merger had	220,708,000
July 1:	
UMB National Bank of America at Salina, Salina, Kansas (4945), with	$129,933,000
and UMB Russell State Bank, Russell, Kansas, with	87,313,000
and UMB Security State Bank, Great Bend, Kansas, with	69,320,000
and UMB Citizens Bank and Trust Company, Manhattan, Kansas, with	106,968,000
and UMB—First Bank and Trust, National Association, Concordia, Kansas (7683), with	72,201,000
and UMB Farmers National Bank, Abilene, Kansas (8379), with	59,948,000
merged under charter 4945 and title "UMB National Bank of America." The merged bank at date of merger had	525,683,000
September 26:	
First United National Bank and Trust Company, Great Bend, Kansas (11707), with	$96,759,000
and The Home State Bank, Kinsley, Kansas, with	17,919,000
merged under charter and title of the former. The merged bank at date of merger had	114,660,000
September 26:	
First American Bank, National Association, Lenexa, Kansas (22015), with	$25,536,000
and The Home State Bank of Kansas City, Kansas City, Kansas, with	109,118,000
and The Wyandotte Bank, Kansas City, Kansas, with	62,883,000
and The Edwardsville Bank, Edwardsville, Kansas, with	31,918,000
merged under charter 22015 and title "Bank Midwest of Kansas, National Association." The merged bank at date of merger had	228,922,000
October 1:	
The First National Bank of Kingman, Kingman, Kansas (3509), with	$54,268,000
and The Turon State Bank, Turon, Kansas, with	15,828,000
and Citizens State Bank, Winfield, Kansas, with	13,000,000
merged under charter 3509 and title "Citizens Bank of Kansas, National Association." The merged bank at date of merger had	83,126,000
October 24:	
American National Bank of Wichita, Wichita, Kansas (20192), with	$45,203,000
and First National Bank in Harper, Harper, Kansas (8307), with	32,836,000
merged under charter and title of the former. The merged bank at date of merger had	78,841,000
November 19:	
Commerce Bank, National Association, Lenexa, Kansas (18112), with	$41,897,000
and The Twin-City State Bank, Kansas City, Kansas, with	97,676,000
merged under charter and title of the former. The merged bank at date of merger had	142,172,000
Kentucky	
February 21:	
Liberty National Bank and Trust Company of Central Kentucky, Radcliff, Kentucky (22700), with	$136,800,000
and Farmers Deposit Bank of Brandenburg, Brandenburg, Kentucky, with	77,769,000
and Liberty National Bank and Trust Company of Hardin County, Elizabethtown, Kentucky (21712), with	76,760,000
merged under charter 22700 and title "Liberty National Bank and Trust Company of Central Kentucky." The merged bank at date of merger had	292,000,000
April 25	
Liberty National Bank and Trust of Western Kentucky, Hopkinsville, Kentucky (22727), with	$65,000,000
and Liberty National Bank of Madisonville, Madisonville, Kentucky (22521), with	163,000,000
merged under charter and title of the former. The merged bank at date of merger had	236,000,000
November 17	
The Peoples First National Bank and Trust Company of Paducah, Paducah, Kentucky (12961), with	$502,378,000
and First National Bank of La Center, La Center, Kentucky (14693), with	36,641,000
and Bank of Murray, Murray, Kentucky, with	41,494,000
and First Liberty Bank of Calvert City, Calvert City, Kentucky, with	35,112,000
and The Salem Bank, Salem, Kentucky, with	41,494,000
merged under charter 12961 and title "Peoples First National Bank and Trust Company." The merged bank at date of merger had	871,545,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
Louisiana	
January 1:	
The First National Bank of Lafayette, Lafayette, Louisiana (5023), with	$451,969,000
and First National Bank of St. Landry Parish, Opelousas, Louisiana (16200), with	215,765,000
merged under charter and title of the former. The merged bank at date of merger had	667,734,000
July 1:	
Hibernia National Bank, New Orleans, Louisiana (13688), with	$4,654,136,000
and First Commercial Bank, Franklin, Louisiana, with	165,433,000
merged under charter and title of the former. The merged bank at date of merger had	4,819,569,000
August 1:	
Hibernia National Bank, New Orleans, Louisiana (13688), with	$4,784,076,000
and First National Bank of West Monroe, West Monroe, Louisiana (14685), with	158,736,000
and Southern National Bank of Tallulah, Tallulah, Louisiana (14716), with	66,247,000
merged under charter 13688 and title "Hibernia National Bank." The merged bank at date of merger had	5,009,059,000
August 1:	
Hibernia National Bank, New Orleans, Louisiana (13688), with	$5,009,059,000
and First National Bank of Jefferson Parish, Gretna, Louisiana (13732), with	399,912,000
merged under charter and title of the former. The merged bank at date of merger had	5,408,971,000
Maryland	
February 4:	
Maryland National Bank, Baltimore, Maryland (17217), with	$11,758,000
and American Security Bank, National Association, Silver Spring, Maryland (16565), with	4,239,000
merged under charter and title of the former. The merged bank at date of merger had	16,394,000
April 29:	
Maryland National Bank, Baltimore, Maryland (17217), with	$14,567,268,000
and NationsBank of DC, National Association, Washington, DC (15013), with	726,101,000
merged under charter and title of the former. The merged bank at date of merger had	15,293,369,000
April 29:	
NationsBank of Maryland, National Association, Bethesda, Maryland (22546), with	$4,213,721,000
and Maryland National Bank, Baltimore, Maryland (17217), with	15,293,369,000
merged under charter and title of the former. The merged bank at date of merger had	19,492,090,000
Massachusetts	
June 10:	
The First National Bank of Boston, Boston, Massachusetts (200), with	$27,712,439,000
and Mechanics Bank, Worcester, Massachusetts, with	410,192,000
and Multibank West, Pittsfield, Massachusetts, with	617,006,000
merged under charter 200 and title "The First National Bank of Boston." The merged bank at date of merger had	28,739,637,000
August 15:	
Fleet Bank of Massachusetts, National Association, Boston, Massachusetts (18677), with	$8,245,000,000
and Sterling Bank, Waltham, Massachusetts, with	1,024,000,000
merged under charter and title of the former. The merged bank at date of merger had	9,269,000,000
Michigan	
May 20:	
First of America Bank—Southeast Michigan, National Association, Detroit, Michigan (14925), with	$4,041,500,000
and First of American Bank—Security, Southgate, Michigan, with	2,013,100,000
merged under charter and title of the former. The merged bank at date of merger had	6,054,500,000
Minnesota	
March 4:	
Norwest Bank Minnesota Central, National Association, St. Cloud, Minnesota (20618), with	$302,752,000
and St. Cloud National Bank and Trust Company, St. Cloud, Minnesota (14622), with	119,143,000
merged under charter 14622 and title "Norwest Bank Minnesota, National Association." The merged bank at date of merger had	421,895,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
May 6:	
Norwest Bank Minnesota, National Association, Minneapolis, Minnesota (2006), with	$15,294,694,000
and Forest Lake State Bank, Forest Lake, Minnesota, with	58,320,000
merged under charter and title of the former. The merged bank at date of merger had	15,353,014,000
July 8:	
Norwest Bank Minnesota West, National Association, Moorhead, Minnesota (13297), with	$349,361,000
and First National Bank of Detroit Lakes, Detroit Lakes, Minnesota (13075), with	76,942,000
merged under charter 13075 and title "Norwest Bank Minnesota West, National Association." The merged bank at date of merger had	426,303,000
August 22:	
The First National Bank of Elmore, Elmore, Minnesota (5377), with	$19,077,000
and Farmers State Bank of Delavan, Delavan, Minnesota, with	7,274,000
merged under charter and title of the former. The merged bank at date of merger had	26,146,000
September 10:	
First National Bank, Fulda, Minnesota (21793), with	$38,710,000
and First National Bank, Hastings, Minnesota (496), with	45,164,000
merged under charter and title of the former. The merged bank at date of merger had	80,249,000
Mississippi	
November 11:	
Deposit Guaranty National Bank, Jackson, Mississippi (15548), with	$3,881,040,000
and First Columbus National Bank, Columbus, Mississippi (10738), with	208,078,000
merged under charter and title of the former. The merged bank at date of merger had	4,053,153,000
Missouri	
March 8:	
Commerce Bank of St. Louis, National Association, Clayton, Missouri (16945), with	$2,558,049,000
and Commerce Bank of St. Francois County, National Association, Farmington, Missouri (20917), with	109,094,000
merged under charter 16945 and title "Commerce Bank, National Association." The merged bank at date of merger had	2,658,927,000
July 25:	
The Boone County National Bank of Columbia, Columbia, Missouri (1770), with	$465,710,000
and South County Bank, Ashland, Missouri, with	17,817,000
merged under charter and title of the former. The merged bank at date of merger had	484,839,000
August 16:	
Mercantile Bank of St. Louis, National Association, St. Louis, Missouri (21684), with	$5,039,509,000
and United Postal Savings Association, St. Louis, Missouri, with	1,256,451,000
merged under charter and title of the former. The merged bank at date of merger had	6,206,110,000
September 1:	
Commerce Bank of Kansas City, National Association, Kansas City, Missouri (15985), with	$2,248,363,000
and Commercial Bank of Liberty, National Association, Liberty, Missouri (13875), with	93,035,000
merged under charter and title of the former. The merged bank at date of merger had	2,345,115,000
December 12:	
UMB First National Bank, St. Louis, Missouri (21727), with	$241,657,000
and United Missouri Bank of St. Louis, National Association, St. Louis, Missouri (21028), with	581,947,000
merged under charter and title of the former. The merged bank at date of merger had	824,573,000
Nebraska	
January 31	
American National Bank, Nebraska City, Nebraska (22274), with	$81,670,000
and Johnson County Bank, Elm Creek, Nebraska, with	27,196,000
and Home State Bank and Trust Company, Humboldt, Nebraska, with	28,140,000
merged under charter 22274 and title "American National Bank." The merged bank at date of merger had	137,006,000
March 21	
American National Bank, Omaha, Nebraska (15435), with	$122,377,000
and Northern Bank, Omaha, Nebraska, with	86,119,000
merged under charter and title of the former. The merged bank at date of merger had	208,496,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
June 20:	
The Commercial National Bank of Ainsworth, Ainsworth, Nebraska (13139), with	$45,319,000
and The First National Bank of Springview, Springview, Nebraska (13138), with	16,325,000
merged under charter and title of the former. The merged bank at date of merger had	61,100,000
New Jersey	
January 11:	
First Fidelity Bank, National Association, Salem, New Jersey (22693), with	$1,000
and First Fidelity Bank, National Association, Pennsylvania, Philadelphia, Pennsylvania (355), with	9,886,824,000
and First Fidelity Bank, National Association, New Jersey, Newark, New Jersey (1452), with	20,179,576,000
merged under charter 22693 and title "First Fidelity Bank, National Association." The merged bank at date of merger had	30,025,237,000
April 29:	
New Jersey National Bank, Ewing Township, New Jersey (1327), with	$4,061,905,000
and Constellation Bank, National Association, Elizabeth, New Jersey (1436), with	2,276,210,000
merged under charter and title of the former. The merged bank at date of merger had	6,338,115,000
August 27:	
Midatlantic National Bank, Newark, New Jersey (1316), with	$10,072,127,000
and Continental Bank, Norristown, New Jersey, with	3,767,522,000
merged under charter and title of the former. The merged bank at date of merger had	13,743,284,000
October 21:	
First Fidelity Bank, National Association, Salem, New Jersey (22693), with	$28,578,772,000
and First Fidelity Bank, National Association, New York, Riverdale, New York (22558), with	2,510,663,000
under charter and title of the former. The merged bank at date of merger had	31,089,435,000
November 30:	
Valley National Bank, Passaic, New Jersey (15790), with	$3,501,545,000
and Rockbank, North Plainfield, New Jersey, with	187,219,000
merged under charter and title of the former. The merged bank at date of merger had	3,690,000,000
New Mexico	
January 1:	
Sunwest Bank of Albuquerque, National Association, Albuquerque, New Mexico (12485), with	$1,944,230,000
and Sunwest Bank of Sandoval County, National Association, Rio Rancho, New Mexico (18428), with	63,859,000
merged under charter and title of the former. The merged bank at date of merger had	2,001,463,000
October 3:	
United New Mexico Bank, National Association, Portales, New Mexico (6187), with	$53,800,000
and United New Mexico Bank at Roswell, Roswell, New Mexico, with	172,800,000
and United New Mexico Bank at Lea County, Hobbs, New Mexico, with	126,300,000
and United New Mexico Bank at Alamogordo, Alamogordo, New Mexico, with	82,100,000
and United New Mexico Bank at Mimbres Valley, Deming, New Mexico, with	59,400,000
and United New Mexico Bank, National Association, Las Cruces, New Mexico (18561), with	84,200,000
and United New Mexico Bank, Albuquerque, New Mexico, with	1,030,100,000
and United New Mexico Bank, Carlsbad, New Mexico, with	107,400,000
and United New Mexico Bank, Gallup, New Mexico, with	61,100,000
and United New Mexico Bank at Vaughn, Vaughn, New Mexico, with	36,800,000
and United New Mexico Bank, National Association, Socorro, New Mexico (16640), with	29,300,000
and United New Mexico Bank Trust Company, Albuquerque, New Mexico, with	2,000,000
merged under charter 6187 and title "Norwest Bank New Mexico, National Association." The merged bank at date of merger had	1,832,500,000
New York	
December 1:	
The First National Bank of Glens Falls, Glens Falls, New York (980), with	$605,537,000
and The Keeseville National Bank, Keeseville, New York (1753), with	137,165,000
and Evergreen Bank, Albany, New York, with	88,425,000
merged under charter 980 and title "Evergreen Bank, National Association." The merged bank at date of merger had	838,718,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
Ohio	
April 30:	
National City Bank, Northeast, Akron, Ohio (17393), with	$1,393,460,000
and The Dollar Savings and Trust Company, Youngstown, Ohio, with	985,649,000
and The Miners and Mechanics Savings and Trust Company, Steubenville, Ohio, with	316,743,000
and Bank 2000, Minerva, Ohio, with	53,988,000
and Peoples Banking Company of Martins Ferry, Martins Ferry, Ohio, with	146,185,000
merged under charter 17393 and title "National City Bank, Northeast." The merged bank at date of merger had	3,051,509,000
Oklahoma	
January 4:	
Exchange National Bank and Trust Company, Ardmore, Oklahoma (11093), with	$149,266,000
and Firstbank of Marietta, Marietta, Oklahoma; with	43,611,000
merged under charter and title of the former. The merged bank at date of merger had	188,309,000
September 24:	
State Bank and Trust, National Association, Tulsa, Oklahoma (18368), with	$309,788,000
and Westar Bank, Tulsa, Oklahoma, with	42,488,000
merged under charter and title of the former. The merged bank at date of merger had	352,276,000
November 14:	
Bank of Oklahoma, National Association, Tulsa, Oklahoma (13679), with	$3,314,910,000
and Citizens Bank, Muskogee, Oklahoma, with	142,305,000
merged under charter and title of the former. The merged bank at date of merger had	3,457,215,000
Pennsylvania	
November 18:	
CoreStates Bank, National Association, Philadelphia, Pennsylvania (1), with	$17,511,526,000
and Lehigh Valley Bank, Bethlehem, Pennsylvania, with	458,507,000
merged under charter and title of the former. The merged bank at date of merger had	17,970,033,000
November 18:	
CoreStates Bank, National Association, Philadelphia (1), with	$18,446,098,000
and Bucks County Bank and Trust Company, Perkasie, Pennsylvania, with	1,174,093,000
merged under charter and title of the former. The merged bank at date of merger had	19,620,191,000
November 18:	
CoreStates Bank, National Association, Philadelphia, Pennsylvania (1), with	$19,620,191,000
and Third National Bank and Trust Company Scranton, Scranton, Pennsylvania, with	444,910,000
merged under charter and title of the former. The merged bank at date of merger had	20,065,101,000
South Carolina	
December 1:	
NationsBank of South Carolina, Columbia, South Carolina (14425), with	$8,945,400,000
and Rock Hill National Bank, Rock Hill, South Carolina (14448), with	257,700,000
merged under 14448 and title "NationsBank of South Carolina, National Association." The merged bank at date of merger had	9,227,800,000
South Dakota	
May 16:	
Norwest Bank South Dakota, Sioux Falls, South Dakota (10592), with	$2,890,201,000
and Farmers State Bank, Winner, South Dakota, with	93,837,000
merged under charter and title of the former. The merged bank at date of merger had	2,984,038,000
Tennessee	
January 1:	
First Commercial Bank, National Association, of Memphis, Memphis, Tennessee (22278), with	$96,333,000
and First City National Bank, Memphis, Tennessee (21597), with	39,598,000
merged under charter and title of the former. The merged bank at date of merger had	135,931,000
May 1:	
Union Planters National Bank, Memphis, Tennessee (13349), with	$3,471,742,000
and Tennessee National Bank, Columbia, Tennessee (22253), with	93,196,000
merged under charter and title of the former. The merged bank at date of merger had	3,387,323,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
September 1:	
Union Planters Bank of Middle Tennessee, National Association, Nashville, Tennessee (22761), with	$967,247,000
and First Citizens Bank, Franklin, Tennessee, with	37,590,000
merged under charter and title of the former. The merged bank at date of merger had	1,005,173,000
December 1:	
Union Planters Bank of East Tennessee, National Association, Knoxville, Tennessee (22760), with	$222,061,000
and Anderson County Bank, Clinton, Tennessee, with	20,196,000
merged under charter and title of the former. The merged bank at date of merger had	242,257,000
Texas	
June 13:	
Texas Commerce Trust Company—Sherman, National Association, Sherman, Texas (22701), with	$5,799,000
and Alliance Trust Company, Dallas, Texas, with	713,000
merged under charter and title of the former. The merged bank at date of merger had	6,512,000
June 15:	
First Interstate Bank of Texas, National Association, Houston, Texas (17612), with	$5,364,090,000
and First Interstate Trust Company of Texas, Houston, Texas, with	500,000
merged under charter and title of the former. The merged bank at date of merger had	5,364,590,000
August 8:	
First National Bank of Grapevine, Grapevine, Texas (12708), with	$154,264,000
and Bedford National Bank, Bedford, Texas (17429), with	52,026,000
merged under charter and title of the former. The merged bank at date of merger had	202,646,000
November 1:	
First State Bank, National Association, Abilene, Texas (17614), with	$58,771,000
and The First National Bank in Stamford, Stamford, Texas (13598), with	33,071,000
and The Winters State Bank, Winters, Texas, with	15,450,000
merged under charter 17614 and title "First State Bank, National Association." The merged bank at date of merger had	106,781,000
West Virginia	
March 15:	
One Valley Bank of Marion County, National Association, Fairmont, West Virginia (14423), with	$131,388,000
and The Bank of Wadstown, Fairview, West Virginia, with	22,154,000
merged under charter and title of the former. The merged bank at date of merger had	153,542,000
April 8:	
Huntington National Bank West Virginia, Morgantown, West Virginia (14396), with	$1,101,807,000
and Commerce Bank Parkersburg, Parkersburg, West Virginia, with	122,934,000
merged under charter and title of the former. The merged bank at date of merger had	1,223,741,000
April 11:	
One Valley Bank of Martinsburg, National Association, Martinsburg, West Virginia (4811), with	$149,122,000
and One Valley Bank—East, National Association, Martinsburg, West Virginia (6283), with	182,432,000
merged under charter and title of the former. The merged bank at date of merger had	331,554,000
June 24:	
Huntington Bank Charleston, National Association, Charleston, West Virginia (13509), with	$572,831,000
and Huntington Bank Huntington, National Association, Huntington, West Virginia (14706), with	195,377,000
merged under charter and title of the former. The merged bank at date of merger had	772,128,000
August 19:	
Huntington National Bank West Virginia, Morgantown, West Virginia (14396), with	$1,350,303,000
and Huntington Bank Charleston, National Association, Charleston, West Virginia (13509), with	773,047,000
merged under charter and title of the former. The merged bank at date of merger had	2,123,350,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
September 30:	
Bank One West Virginia, Huntington, National Association, Huntington, West Virginia (3106), with	$548,629,000
and Bank One West Virginia, Beckley, N.A., Beckley, West Virginia (18123), with	389,185,000
and Bank One West Virginia, Boone, N.A., Madison, West Virginia (6510), with	131,328,000
and Bank One West Virginia, Buckhannon, N.A., Buckhannon, West Virginia (13646), with	216,668,000
and Bank One West Virginia, Charles Town, Charles Town, West Virginia, with	71,729,000
and Bank One West Virginia, Charleston, N.A., Charleston, West Virginia (3236), with	484,699,000
and Bank One West Virginia, Clarksburg, N.A., Clarksburg, West Virginia (7681), with	316,044,000
and Bank One West Virginia, Lincoln, N.A., Hamlin, West Virginia (8171), with	69,364,000
and Bank One West Virginia, Logan, N.A., Logan, West Virginia (13954), with	170,672,000
and Bank One West Virginia, Nicholas County, Summersville, West Virginia, with	94,921,000
and Bank One West Virginia, Philippi, N.A., Philippi, West Virginia (14053), with	63,787,000
and Bank One West Virginia, St. Albans, N.A., St. Albans, West Virginia (17987), with	84,986,000
and Bank One West Virginia, Wayne County, Wayne, West Virginia, with	90,037,000
and Bank One West Virginia, Williamson, N.A., Williamson, West Virginia (10067), with	71,379,000
merged under charter 3106 and title "Bank One West Virginia, National Association." The merged bank at date of merger had	2,803,428,000
October 7:	
Huntington National Bank West Virginia, Charleston, West Virginia (14396), with	$1,223,741,000
and Huntington Bank Martinsburg, National Association, Martinsburg, West Virginia (16088), with	134,040,000
merged under charter and title of the former. The merged bank at date of merger had	1,228,369,000
November 28:	
The First National Bank of Bluefield, Bluefield, West Virginia (4643), with	$194,512,000
and The Bank of Oceana, Oceana, West Virginia, with	45,149,000
merged bank at date of merger had	194,512,000
Wisconsin	
February 1:	
M&I Mid-State Bank, National Association, Stevens Point, Wisconsin (3001), with	$183,056,000
and M&I Peoples Bank, Coloma, Wisconsin, with	116,959,000
and M&I Community First Bank, New Lisbon, with	46,652,000
merged under charter 3001 and title "M&I Mid-State Bank, National Association." The merged bank at date of merger had	360,000,000
February 21:	
Firstar Bank Wausau, National Association, Wausau, Wisconsin (14958), with	$93,966,000
and Bank of Athens, Wausau, Wisconsin, with	101,326,000
merged under charter and title of the former. The merged bank at date of merger had	195,292,000
June 1:	
National Exchange Bank and Trust, Fond du Lac, Wisconsin (13879), with	$310,194,000
and State Bank of Cascade, Cascade, Wisconsin, with	13,637,000
merged under charter and title of the former. The merged bank at date of merger had	324,600,000
July 15:	
Firstar Bank Milwaukee, National Association, Milwaukee, Wisconsin (64), with	$5,000,300,000
and Firstar Bank Racine, Racine, Wisconsin, with	119,293,000
merged under charter and title of the former. The merged bank at date of merger had	5,000,400,000
November 18:	
Firstar Bank Milwaukee, National Association, Milwaukee, Wisconsin (64), with	$5,600,000,000
and Firstar Bank Lake Geneva, National Association, Elkhorn, Wisconsin (14873), with	109,181,000
merged under charter and title of the former. The merged bank at date of merger had	5,740,000,000
December 5	
Firstar Bank Madison, National Association, Madison, Wisconsin (144), with	$871,513,000
and Firstar Bank Portage, Portage, Wisconsin, with	75,270,000
merged under charter and title of the former. The merged bank at date of merger had	946,783,000

Mergers consummated between affiliated national banks and savings and loan associations, January 1 to December 31, 1994

Title and location of banks	*Total assets*
Florida	
February 17:	
Sun Bank Tallahassee, National Association, Tallahassee, Florida (18089), with	$199,615,000
and Andrew Jackson Savings Bank, Tallahassee, Florida, with	418,500,000
merged under charter and title of the former. The merged bank at date of merger had	641,275,000
August 1:	
First Union National Bank of Florida, Jacksonville, Florida (17695), with	$27,778,116,000
and BancFlorida, F.S.B., Naples, Florida, with	1,527,419,000
merged under charter and title of the former. The merged bank at date of merger had	29,414,920,000
Illinois	
January 7:	
Citizens First National Bank, Princeton, Illinois (2413), with	$234,139,000
and Heart of Illinois Bank, F.S.B., Spring Valley, Illinois, with	77,771,000
merged under charter and title of the former. The merged bank at date of merger had	370,928,000
May 1:	
First of America Bank—Metro Southwest, National Association, Kankakee, Illinois (21812), with	$644,065,000
and La Grange Federal Savings and Loan Association, La Grange, Illinois, with	408,033,000
merged under charter and title of the former.	1,056,000,000
Minnesota	
June 18:	
First Bank, National Association, Minneapolis, Minnesota (710), with	$15,227,700,000
and St. Louis Bank for Savings, F.S.B., Duluth, Minnesota, with	200,919,000
merged under charter and title of the former. The merged bank at date of merger had	15,442,743,000
New York	
August 19:	
First Fidelity Bank, New York, National Association, Riverdale, New York (22558), with	$2,666,115,000
and Mid-Hudson Savings Bank, F.S.B., with	521,277,000
merged under charter and title of the former. The merged bank at date of merger had	3,333,148,000
North Carolina	
March 28:	
Southern National Bank of North Carolina, Lumberton, North Carolina (10610), with	$4,535,000,000
and First Savings Bank, Inc., Hickory, North Carolina, with	162,000,000
and Davidson Savings Bank, Inc., Lexington, North Carolina, with	114,000,000
merged under charter 10610 and title "Southern National Bank of North Carolina." The merged bank at date of merger had	4,809,000,000
Ohio	
April 22:	
First National Bank of Ohio, Akron, Ohio (14579), with	$1,850,997,000
and Great Northern Savings Company, Barberton, Ohio, with	385,229,000
merged under charter and title of the former. The merged bank at date of merger had	2,236,226,000
Pennsylvania	
June 23:	
National Bank of the Main Line, Wayne, Pennsylvania (20221), with	$238,484,000
and Elwood Federal Savings Bank, Media, Pennsylvania, with	249,077,000
merged under charter and title of the former. The merged bank at date of merger had	487,561,000
Texas	
June 15:	
First Interstate Bank of Texas, National Association, Houston, Texas (17612), with	$5,364,590,000
and First Interstate Trust Company of Texas, Houston, Texas, with	500,000
merged under charter and title of the former. The merged bank at date of merger had	5,364,590,000

Mergers consummated involving two or more affiliated operating banks, January 1 to December 31, 1994 (continued)

Title and location of banks	*Total assets*
Wisconsin	
September 1:	
M&I Mid-State Bank, National Association, Stevens Point, Wisconsin (3001), with	$379,823,000
and Valley Bank Western, F.S.B., Sparta, Wisconsin, with	96,981,000
merged under charter and title of the former. The merged bank at date of merger had	428,951,000

Applications for new full-service national bank charters, approved and denied by states, July 1 to December 31, 1994

Title and location of bank	*Approved*	*Denied*
Florida		
Gulf Coast National Bank, Naples	October 24	
Kansas		
Community National Bank, Topeka	October 12	
Kentucky		
McCreary National Bank, Whitley City	July 20	
Minnesota		
First Bank Fergus Falls, N.A., Fergus Falls	November 15	
First Bank Grand Rapids, N.A., Grand Rapids	November 15	
First Bank Maple Grove, N.A., Maple Grove	November 15	
First Bank Minneapolis South, N.A., Minneapolis	November 15	
First Bank St. Cloud, N.A., St. Cloud	November 15	
Montana		
First National Bank of Montana, Butte	September 16	
Mountain West Bank of Great Falls, N.A., Great Falls	December 15	
Texas		
Texas National Bank, Sweetwater	October 27	
First Community Bank, N.A., Pearland	December 19	
Virginia		
Valley Bank, N.A., Roanoke	September 8	
Washington		
Pacific Bank, N.A., Lynnwood	August 2	

Applications for new limited-purpose national bank charters, approved and denied, by state, July 1 to December 31, 1994

Title and location of bank	Type of bank	Approved	Denied
California			
Neighborhood Development Bank, N.A., San Diego	Community reinvestment	December 23	
Connecticut			
Sachem Trust, N.A., Guilford	Trust (nondeposit)	July 22	
Delaware			
Advanta National Bank, Wilmington	Credit card	July 13	
Illinois			
The ONB Trust Company, N.A., Mt. Carmel	Trust (nondeposit)	September 9	
Indiana			
The ONB Trust Comany, N.A., Evansville	Trust (nondeposit)	September 1	
Key Trust Company of Indiana, N.A. Trust, Indianapolis	Trust (nondeposit)	October 12	
Kentucky			
The ONB Trust Company, N.A., Morganfield	Trust (nondeposit)	November 4	
Maine			
Bank of Boston (Maine), N.A., South Portland	Credit card	November 30	
Ohio			
Key Trust Company of Ohio, N.A., Cleveland	Trust (nondeposit)	October 12	

New full-service national bank charters issued, July 1 to December 31, 1994

Title and location of bank	*Charter number*	*Date*
Connecticut		
Patriot National Bank, Stamford	22545	August 31
Florida		
Cape Coral National Bank, Cape Coral	22723	December 7
New York		
Waterhouse National Bank, White Plains	22611	October 13
Tennessee		
Union Planters Bank of Chattanooga, N.A., Chattanooga	22758	July 1
Union Planters Bank of Jackson, N.A., Jackson	22759	July 1
Union Planters Bank of East Tennessee, N.A., Knoxville	22760	July 1
Union Planters Bank of Middle Tennessee, N.A., Nashville	22761	July 1
Virginia		
Community National Bank, Pulaski	22668	August 29

New limited-purpose national bank charters issued, July 1 to December 31, 1994

Title and location of bank	*Charter number*	*Date opened*
Connecticut		
Sachem Trust, N.A., Guilford (trust)	22784	August 5
Delaware		
Whirlpool Financial National Bank, New Castle (credit card)	22696	October 1
Nebraska		
Texaco Credit Card Bank, N.A., Omaha (credit card)	22568	December 1
New York		
First Trust of New York, N.A., New York (trust)	22746	August 22
North Carolina		
First Union Home Equity Bank, N.A., Charlotte (credit card)	22559	September 1

State-chartered banks converted to full-service national banks, July 1 to December 31, 1994

Title and location of bank	*Effective date*	*Total assets*
Kansas		
Twin Lakes National Bank (22766), conversion of Twin Lakes Bank and Trust, Wichita	October 1	106,573,000
Missouri		
Truman National Bank and Trust Company (22757), conversion of Truman Bank and Trust Company, Grandview	August 11	50,497,000
Montana		
Montana Bank, N.A. (22771), conversion of Montana Bank of Billings, Billings	September 30	332,377,000
Bank of Montana, N.A. (22772), conversion of Bank of Montana, Great Falls	September 30	492,546,000
Pennsylvania		
Commerce Bank Harrisburg, N.A. (22765), conversion of Commerce Bank Harrisburg, Camp Hill	October 7	121,945,000
South Dakota		
First National Bank South Dakota (22764), conversion of Valley State Bank, Yankton	July 19	166,222,000
Tennessee		
Trans Financial Bank Tennessee, N.A., (22774), conversion of Peoples Bank and Trust of the Cumberlands, Cookeville	July 29	72,955,000

National banks converted out of the national bank system, July 1 to December 31, 1994

Title and location of bank	*Effective date*	*Total assets*
Alabama		
Amsouth Bank, N.A., Birmingham (3185)	July 8	8,722,585,000
California		
University National Bank and Trust Company, Palo Alto (16858)	June 17	414,360,000
Colorado		
First National Bank of Leadville, Leadville (17378)	June 23	11,446,000
Illinois		
Continental Bank, N.A., Chicago (13639)	June 29	21,600,000,000
Iowa		
Hancock County National Bank of Garner, Garner (14036)	June 29	57,352,000
Maryland		
Farmers National Bank of Maryland, Annapolis (1244)	December 28	622,970,000
Michigan		
City Bank and Trust Company, N.A., Jackson (15367)	June 30	356,000,000
Minnesota		
Valley National Bank of North Mankato, North Mankato (15131)	September 1	69,369,000
Mississippi		
Merchants Bank, N.A., Vicksburg (3430)	September 24	168,228,000
Montana		
The First National Bank of Glasgow, Glasgow (7990)	June 27	73,783,000
Western National Bank of Wolf Point, Wolf Point (15122)	September 12	40,000,000
North Carolina		
Enterprise National Bank of the Piedmont, Winston-Salem (22038)	October 24	43,140,000
North Dakota		
First National Bank in Drake, Drake (22500)	June 27	14,592,000
Ohio		
The Fifth Third Bank of Western Ohio, N.A., Piqua (1061)	August 1	307,000,000
South Carolina		
Greenwood National Bank, Greenwood (21736)	September 26	58,993,000
Texas		
LaGrange National Bank, LaGrange (18652)	June 15	18,652,000
West Side National Bank of Pearland, Pearland (17814)	June 24	56,238,000
Antoine National Bank, Houston (17482)	October 31	39,888,000
Virginia		
The First National Bank of Strasburg, Strasburg (8746)	June 1	109,671,000
Chesapeake National Bank, Kilmarnock (5290)	June 27	120,238,000
Second National Bank, Culpeper (5394)	June 28	192,796,000
The Page Valley National Bank of Luray, Luray (6206)	June 29	51,133,000
The Peoples National Bank of Warrenton, Warrenton (9642)	November 1	96,446,000
West Virginia		
Wesbanco Bank Fairmont, N.A., Fairmont (13811)	October 21	156,343,000
Wesbanco Bank Morgantown, N.A., Morgantown (16675)	October 21	29,213,000
Wisconsin		
First National Bank of Wisconsin, Oconto (4123)	June 10	108,421,000

National banks merged out of the national bank system, July 1 to December 31, 1994

Title and location of bank	*Charter number*	*Effective date*
Alabama		
Fort Rucker National Bank, Fort Rucker	15658	October 31
California		
Western Industrial National Bank, South El Monte	17846	June 24
Country National Bank, Redding	18585	July 21
Bank of Anaheim, N.A., Anaheim	20461	September 16
Westcal National Bank, San Mateo	18689	October 4
Florida		
Osceola National Bank, Kissimmee	21320	September 30
Georgia		
North Georgia National Bank, Woodstock	21919	July 5
Illinois		
The First National Bank in Madison, Madison	14235	May 31
Kansas		
Brewster National Bank, Brewster	17167	July 22
The First National Bank of Sterling, Sterling	3207	November 9
Kentucky		
The National Bank of Cynthiana, Cynthiana	1900	June 3
The First National Bank of Falmouth, Falmouth	11947	June 3
Missouri		
Heritage National Bank, Shrewsbury	18734	March 20
New Jersey		
United Jersey Bank South, N.A., Cherry Hill	1346	July 15
United Jersey Bank Central, N.A., Princeton	4872	July 15
Oregon		
National Security Bank, Newport	14306	November 10
Pennsylvania		
The Grange National Bank of Susquehanna County at New Milford, New Milford	8960	April 25
Texas		
Victoria Bank and Trust Company, Victoria	22704	July 1
First National Bank in Wheeler, Wheeler	14644	July 29
Bank of Athens, N.A., Athens	17634	July 31
Lockwood National Bank of Houston, Houston	14815	August 4
West Virginia		
First National Bank, Beckley	16344	July 15
Wisconsin		
University National Bank, Milwaukee	15878	June 20
Valley First National Bank, Ripon	425	July 1
M&I Lake Country National Bank, Hartland	15837	August 1
Associated Bank Marshfield, N.A., Marshfield	14125	September 1
Valley Bank, N.A., Watertown	14064	September 1

National banks in voluntary liquidation, July 1 to December 31, 1994

Title and location of bank	*Charter number*	*Effective date*
California		
Western Family National Bank, Carlsbad	17730	August 31
Fidelity National Trust Company, Los Angeles	17093	July 1
Georgia		
First South Bank of Ben Hill County, N.A., Fitzgerald	22529	December 6
Maryland		
May National Bank of Maryland, Silver Spring	21921	April 15
New York		
The First National Bank of Amenia, Amenia	706	June 30
South Carolina		
Republic National Bank, Columbia	16474	June 27

Federal branches and agencies of foreign banks in operation, July 1 to December 31, 1994

	In operation July 1, 1994	*Opened July 1 - December 31*	*Closed July 1 - December 31*	*In operation December 31, 1994*
Federal branches				
California	4	0	0	4
District of Columbia	1	0	0	1
Illinois	1	0	0	1
New York	48	1	0	49
Washington	1	0	0	1
Limited federal branches				
California	10	0	1	9
District of Columbia	2	0	0	2
Illinois	1	0	0	1
New York	5	0	0	5
Federal Agencies				
Florida	1	0	0	1
Total United States	74	1	1	74

Statistical Tables

Assets, liabilities and capital accounts of national banks, December 31, 1993 and December 31, 1994
(Dollar amounts in millions)

	December 31, 1993	*December 31, 1994*	*Change December 31, 1994-December 31, 1994 fully consolidated*	
	Consolidated foreign and domestic	*Consolidated foreign and domestic*	*Amount*	*Percent*
Assets				
Cash and balances due from depository institutions:				
Noninterest-bearing balances and currency and coin	$118,041	$127,497	9,456	8.01
Interest bearing balances	45,628	58,921	13,294	29.14
Securities not in trading account*	437,109	414,342	–22,768	–5.21
Federal funds sold and securities purchased under agreements to resell	87,586	88,731	1,145	1.31
Loans and leases net of unearned income	1,270,672	1,384,428	113,756	8.95
Less allowance for loan and lease losses	31,561	31,061	–499	–1.58
Less allocated transfer risk reserve	13	4	–9	–69.60
Net loans and leases	1,239,098	1,353,362	114,264	9.22
Premises and fixed assets	32,219	33,749	1,530	4.75
Other real estate owned	10,500	6,039	–4,461	–42.49
All other assets†	131,849	175,017	43,168	32.74
Total assets	2,102,030	2,257,658	155,628	7.40
Liabilities				
Deposits:				
Noninterest-bearing deposits in domestic offices	331,547	326,462	–5,085	–1.53
Interest-bearing deposits in domestic offices	1,032,850	1,024,007	–8,843	–0.86
Total domestic deposits	1,364,397	1,350,469	–13,929	–1.02
Total foreign deposits	212,676	279,514	66,837	31.43
Total deposits	1,577,074	1,629,982	52,909	3.35
Federal funds purchased and securities sold under agreements to repurchase	161,967	184,253	22,287	13.76
Demand notes issued to U.S. Treasury	20,478	9,444	–11,034	–53.88
Other borrowed money	89,770	129,200	39,430	43.92
Subordinated notes and debentures	24,393	27,232	2,839	11.64
All other liabilities†	63,360	104,548	41,188	65.01
Total liabilities	1,937,042	2,084,600	41,188	7.62
Limited-life preferred stock	1	1	0	NM
Equity Capital				
Perpetual preferred stock	166	276	111	66.79
Common stock	16,707	17,563	855	5.12
Surplus	72,576	76,850	4,274	5.89
Net undivided profits and capital reserves	76,334	78,968	2,633	3.45
Cumulative foreign currency translation adjustments	–796	–659	137	–17.25
Total equity capital	164,987	172,998	8,010	4.86
Total liabilities, limited-life preferred stock, and equity capital	2,102,030	2,257,658	155,628	7.40

NM = Not meaningful

*Beginning in 1994, securities classified by banks as "held-to-maturity" are valued at their amortized cost, and securities classified as "available-for-sale" are valued at their current fair value.

†Beginning in 1994, trading account assets, which are included in all other assets, are liabilities are reported separately and included in all other liabilities.

Income and expenses of foreign and domestic offices and subsidiaries of national banks, December 31, 1994
(Dollar amounts in millions)

	Consolidated foreign and domestic	Percent distribution
Interest income:		
Interest and fee income on loans	$111,458.35	74.5
Income from lease financing receivables	2,270.23	1.5
Interest income on balances due from depository institutions	3,267.81	2.2
Interest and dividend income on securities	25,462.86	17.0
Interest income from assets held in trading accounts	3,271.27	2.2
Interest income from federal funds sold and securities purchase agreements to resell	3,965.46	2.6
Total interest income	149,695.98	100.0
Interest expense:		
Interest on deposits	45,619.07	69.6
Expense of federal funds purchased and securities sold under agreements to repurchase	7,565.97	11.5
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	10,705.42	16.3
Interest on mortgage indebtedness and obligations under capitalized leases	93.49	0.1
Interest on notes and debentures subordinated to deposits	1,592.38	2.4
Total interest expense	65,576.31	100.0
Net interest income	84,119.66	
Provision for loan and lease losses	5,558.64	
Provision for allocated transfer risk	–9.31	
Noninterest income:		
Service charges on deposit accounts	9,504.17	20.7
Other noninterest income	36,398.31	79.3
Total noninterest income	45,902.48	100.0
Gains and losses on securities not held in trading accounts	–303.89	
Noninterest expense:		
Salaries and employee benefits	34,639.99	41.4
Expenses of premises and fixed assets (net of rental income)	11,056.89	13.2
Other noninterest expense	38,319.36	45.4
Total noninterest expense	84,016.23	100.0
Income (loss) before income taxes and extraordinary items and other adjustments*	40,152.69	
Applicable income taxes	13,249.60	
Income before extraordinary items and other adjustments	26,875.43	
Extraordinary items and other adjustments, net of taxes	–38.40	
Net Income	26,837.02	
Total cash dividends declared**	17,675.37	
Recoveries credited to allowance for possible loan losses	3,847.74	
Losses charged to allowance for possible loan losses	9,863.17	
Net loan losses	6,015.42	

*The subcomponents of income before taxes and extraordinary items do not add to the reported total because the data is preliminary.
**Banks with assets of less than $100 million report this item only in their December Report of Income.
Note. Preliminary year-to-date data.

Loans of national banks by state, December 31, 1994
(Dollar amounts in millions)

	Total loans, gross	Domestic offices					Total loans at foreign offices
		Loans secured by real estate	Loans to farmers	Commercial and industrial loans	Loans to individuals	Other loans	
All national banks	$1,387,606	$538,480	$16,028	$294,778	$268,854	$115,686	$153,780
Alabama	7,991	4,005	47	1,967	1,342	630	0
Alaska	1,922	894	1	543	349	130	6
Arizona	22,003	6,362	353	2,216	11,620	1,452	0
Arkansas	7,344	3,844	253	1,283	1,754	210	0
California	153,538	72,439	2,301	22,870	11,515	15,032	29,381
Colorado	14,327	6,395	466	2,400	3,917	1,147	2
Connecticut	14,756	8,000	3	3,986	1,232	1,535	0
Delaware	26,179	510	6	138	25,127	23	375
District of Columbia	3,954	2,768	0	604	191	223	168
Florida	65,240	36,752	249	9,820	14,787	3,338	293
Georgia	40,123	15,173	135	11,637	10,109	3,069	0
Hawaii	223	143	0	69	8	2	0
Idaho	4,330	1,524	302	686	1,655	163	0
Illinois	54,764	20,964	835	16,471	8,704	5,133	2,656
Indiana	29,200	13,712	355	5,641	7,840	1,652	0
Iowa	9,722	3,448	676	1,744	3,581	274	0
Kansas	8,446	3,455	986	1,801	1,973	230	0
Kentucky	14,784	6,666	148	3,177	3,625	1,168	0
Louisiana	12,350	5,101	90	2,913	3,619	627	0
Maine	1567	1,036	4	330	172	25	0
Maryland	41,107	21,278	15	7,704	4,634	7,030	447
Massachusetts	41,578	14,030	7	14,373	2,606	2,452	8,109
Michigan	35,975	13,221	98	11,177	7,641	2,454	1,385
Minnesota	27,937	11,052	634	7,997	3,885	4,181	188
Mississippi	6,095	2,892	119	1,337	1,468	279	0
Missouri	20,445	9,060	275	5,587	3,961	1,563	0
Montana	2,403	970	215	441	741	37	0
Nebraska	9,304	2,445	1,480	1,622	3,433	324	0
Nevada	12,892	1,032	9	209	11,581	62	0
New Hampshire	2,848	915	0	56	1,869	7	0
New Jersey	30,523	17,140	8	7,364	4,240	1,769	3
New Mexico	5,271	2,850	131	750	1,276	264	0
New York	205,087	39,339	165	25,072	12,547	20,442	107,522
North Carolina	47,450	19,677	276	15,733	3,940	6,323	1,501
North Dakota	2,472	1,119	319	516	464	54	0
Ohio	78,223	30,438	313	17,143	24,448	5,768	113
Oklahoma	10,386	4,606	656	2,783	2,031	310	0
Oregon	13,161	3,815	264	4,084	3,179	1,802	17
Pennsylvania	78,756	33,831	137	24,357	9,875	9,313	1,243
Rhode Island	7,742	3,065	0	2,947	396	1,334	0
South Carolina	15,406	9,356	36	2,664	2,562	788	0
South Dakota	15,408	1,140	469	1,737	11,957	104	0
Tennessee	25,202	12,031	130	6,623	4,790	1,628	0
Texas	78,877	32,449	1,828	24,259	13,483	6,548	309
Utah	7,101	3,300	130	1,263	1,938	470	0
Vermont	1,598	1,054	5	292	187	59	0
Virginia	21,660	10,783	88	4,615	4,413	1,761	0
Washington	22,508	8,733	630	5,944	6,132	1,028	40
West Virginia	7,883	4,453	12	1,209	2,021	189	0
Wisconsin	17,517	7,922	281	4,450	3,579	1,263	22
Wyoming	2,029	1,292	88	176	457	16	0

Note: Preliminary end-of-quarter data. Zeros indicate amounts of less than $500,000.

Deposits of national banks, by state, December 31, 1994
(Dollar amounts in millions)

	Total demand deposits at domestic offices	All NOW accounts	Money market deposit accounts	Large time deposits	All other deposits at domestic offices	Total deposits at foreign offices	Total consolidated deposits
All national banks	$319,162	$169,838	$257,662	$106,268	$497,539	$279,514	$1,629,982
Alabama	1,491	1,016	1,379	929	3,630	407	8,853
Alaska	890	285	464	302	963	0	2,903
Arizona	5,052	2,456	5,563	1,080	6,326	0	20,478
Arkansas	2,147	2,120	1,252	1,276	4,754	0	11,549
California	40,208	15,391	38,554	8,207	35,090	36,016	173,465
Colorado	5,533	3,754	4,026	788	6,322	42	20,465
Connecticut	5,204	2,132	2,643	1,546	6,788	546	18,859
Delaware	579	140	2,809	3,642	3,370	821	11,361
District of Columbia	1,698	1,225	1,927	365	1,430	345	6,989
Florida	16,909	10,105	18,314	7,575	31,738	618	85,258
Georgia	8,753	5,568	6,286	2,662	13,982	641	37,892
Hawaii	62	37	32	39	100	0	270
Idaho	756	558	634	277	1,652	0	3,877
Illinois	15,128	7,191	8,968	7,819	26,286	13,535	78,926
Indiana	6,449	4,867	4,484	1,848	13,973	580	32,201
Iowa	2,150	1,722	1,616	564	5,118	0	11,170
Kansas	2,036	2,126	1,861	914	5,853	0	12,791
Kentucky	3,425	2,723	1,544	1,420	7,049	784	16,945
Louisiana	4,786	2,915	2,907	2,456	7,910	145	21,119
Maine	258	247	181	91	960	0	1,736
Maryland	10,618	5,690	7,401	1,996	21,987	2,159	49,851
Massachusetts	8,885	3,774	6,693	2,854	10,508	12,322	45,036
Michigan	8,234	3,244	7,275	2,962	15,529	5,902	43,146
Minnesota	7,961	3,847	5,495	1,432	9,721	1,396	29,853
Mississippi	1,804	1,404	1,426	823	3,465	0	8,922
Missouri	6,825	4,122	5,650	1,099	9,612	1,620	28,927
Montana	661	561	616	129	1,118	0	3,084
Nebraska	2,097	1,846	1,322	1,004	6,061	0	12,330
Nevada	1,106	640	1,030	303	1,005	0	4,084
New Hampshire	119	134	347	788	942	0	2,329
New Jersey	10,423	5,931	5,750	2,524	19,547	16	44,190
New Mexico	1,567	1,557	1,153	625	3,081	0	7,983
New York	29,001	6,746	25,015	9,454	20,727	160,879	251,822
North Carolina	8,392	3,913	6,676	2,926	12,087	16,882	50,875
North Dakota	561	612	432	176	1,451	0	3,231
Ohio	15,559	9,429	9,016	4,222	37,427	8,095	83,748
Oklahoma	3,296	2,646	2,108	1,870	6,340	33	16,292
Oregon	3,496	2,132	2,960	307	3,946	1	12,842
Pennsylvania	17,738	7,796	14,795	5,646	33,608	8,373	87,957
Rhode Island	1,159	619	1,614	986	2,640	1,611	8,628
South Carolina	3,185	2,898	2,670	1,186	6,210	53	16,202
South Dakota	1,013	630	1,441	915	3,044	0	7,043
Tennessee	6,334	3,786	5,965	2,646	12,494	261	31,487
Texas	26,188	17,357	19,119	10,493	34,745	3,979	111,881
Utah	1,841	1,211	1,471	379	3,189	139	8,230
Vermont	271	255	511	57	764	0	1,857
Virginia	5,010	3,640	4,553	1,753	12,236	0	27,192
Washington	6,291	2,753	5,921	886	5,179	161	21,192
West Virginia	1,440	1,506	714	562	5,718	0	9,940
Wisconsin	4,259	2,196	2,782	1,309	8,484	1,153	20,183
Wyoming	315	383	297	158	1,384	0	2,537

Note: Preliminary end-of-quarter data. Zeros indicate amounts of less than $500,000.

Interest income of national banks, by state, December 31, 1994
(Dollar amounts in millions)

	Interest and fees on loans	Income from lease financing	Interest due from other depository institutions	Interest and dividends on securities	Interest from trading account assets	Interest from federal funds transactions	Total interest income
All national banks	$111,426	$2,270	$3,268	$25,446	$3,271	$3,960	$149,641
Alabama	610	13	2	193	0	13	830
Alaska	180	1	0	89	0	3	272
Arizona	1,550	66	2	338	1	29	1,986
Arkansas	552	2	2	266	0	13	836
California	11,214	286	337	1,623	385	231	14,077
Colorado	1,098	12	23	449	0	42	1,625
Connecticut	1,048	1	8	516	0	28	1,600
Delaware	2,904	8	9	92	0	15	3,027
District of Columbia	305	0	15	144	0	40	505
Florida	4,974	14	83	1,152	1	247	6,469
Georgia	2,971	66	22	578	6	88	3,730
Hawaii	18	0	0	2	0	1	21
Idaho	319	4	0	30	11	2	366
Illinois	3,964	29	345	1,211	183	313	6,045
Indiana	2,215	50	6	541	0	51	2,863
Iowa	812	2	1	285	0	18	1,117
Kansas	674	9	4	321	0	20	1,027
Kentucky	1,111	27	1	271	0	35	1,445
Louisiana	985	2	7	581	0	27	1,603
Maine	116	0	0	22	0	2	140
Maryland	2,805	137	37	870	9	98	3,955
Massachusetts	3,648	120	134	650	115	120	4,787
Michigan	2,703	29	45	858	9	66	3,711
Minnesota	2,098	56	3	427	9	154	2,747
Mississippi	471	1	5	242	0	16	735
Missouri	1,524	20	4	612	6	88	2,254
Montana	210	0	1	54	0	6	270
Nebraska	905	1	2	213	0	22	1,144
Nevada	1,123	2	3	97	0	7	1,232
New Hampshire	386	0	0	30	0	2	418
New Jersey	2,298	18	29	663	1	134	3,143
New Mexico	423	5	2	183	5	24	642
New York	21,292	573	1,845	2,792	2,149	790	29,442
North Carolina	3,211	109	78	802	265	318	4,781
North Dakota	196	1	0	56	0	2	254
Ohio	6,440	209	8	1,245	3	205	8,110
Oklahoma	809	2	4	422	0	16	1,252
Oregon	1,005	57	0	129	12	32	1,234
Pennsylvania	5,329	140	118	1,758	26	83	7,453
Rhode Island	528	77	1	140	0	20	768
South Carolina	1,169	0	2	294	0	60	1,525
South Dakota	1,641	2	1	70	0	8	1,722
Tennessee	1,878	17	13	582	25	43	2,557
Texas	5,444	32	48	2,215	6	289	8,034
Utah	579	19	1	130	34	36	799
Vermont	134	0	0	24	0	1	160
Virginia	1,714	4	10	509	0	30	2,267
Washington	1,792	24	0	83	5	12	1,916
West Virginia	623	1	1	237	0	10	873
Wisconsin	1,372	24	4	313	1	52	1,767
Wyoming	58	0	1	46	0	2	106

Note: Preliminary year-to-date data. Zeros indicate amounts of less than $500,000.

Noninterest income of national banks, by state, December 31, 1994
(Dollar amounts in millions)

	Service charges on deposit accounts	*Gains (losses) on foreign exchange transactions*	*Gains (losses) on fees from assets in trading accounts*	*Other noninterest income + extraordinary items*	*Gains (losses) on assets not in trading accounts*	*Total noninterest income and gains (losses) on assets not in trading accounts*
All national banks	$9,504	$1,447	$1,270	$33,643	$462	$45,560
Alabama	51.50	4.81	0.72	109.59	0.82	167.45
Alaska	18.59	0.00	0.00	38.66	0.37	57.62
Arizona	170.86	2.28	1.94	364.51	–27.00	512.59
Arkansas	64.43	0.00	4.98	120.24	0.43	190.09
California	1442.90	243.60	95.50	3006.41	–29.56	4758.86
Colorado	161.29	1.80	0.31	382.24	–22.68	522.96
Connecticut	108.53	1.68	2.18	334.05	–7.52	438.92
Delaware	7.10	0.00	0.00	3284.77	–0.21	3291.67
District of Columbia	46.53	0.28	0.80	108.41	0.95	156.97
Florida	595.39	8.59	1.90	886.49	–0.31	1492.06
Georgia	365.67	1.82	5.17	644.48	–2.86	1014.28
Hawaii	1.13	0.03	0.00	1.81	0.00	2.97
Idaho	30.58	0.04	-3.72	29.32	–0.75	55.47
Illinois	387.57	44.01	14.55	841.71	–22.75	1265.10
Indiana	165.85	0.72	1.06	371.52	–40.58	498.58
Iowa	57.70	0.00	0.05	254.29	26.92	338.96
Kansas	76.26	0.60	0.92	109.14	1.24	188.14
Kentucky	90.46	0.00	1.02	157.09	–18.83	229.74
Louisiana	159.29	0.52	3.35	219.80	–41.98	340.98
Maine	7.66	0.01	0.00	14.58	–0.14	22.12
Maryland	346.38	4.50	10.27	482.98	20.61	864.74
Massachusetts	196.91	52.31	19.89	874.27	–6.72	1136.66
Michigan	218.17	14.25	4.54	532.55	3.95	773.47
Minnesota	185.98	12.80	-3.05	891.11	–37.00	1049.84
Mississippi	56.89	0.01	1.72	77.61	8.56	144.79
Missouri	184.12	8.74	30.49	358.23	4.49	586.07
Montana	18.32	0.22	0.00	38.99	–3.60	53.93
Nebraska	62.95	0.03	0.52	231.34	–1.30	293.55
Nevada	30.75	0.01	0.00	1485.18	0.00	1515.94
New Hampshire	1.99	0.00	0.00	230.25	–0.10	232.14
New Jersey	238.63	0.78	–0.39	366.80	2.19	608.00
New Mexico	55.16	0.00	–0.72	93.13	–10.33	137.24
New York	493.53	927.44	746.60	5946.17	314.50	8428.24
North Carolina	285.84	21.22	180.81	825.14	–9.98	1303.02
North Dakota	13.31	0.09	0.00	24.98	0.50	38.87
Ohio	420.47	14.14	–0.16	1801.69	–136.50	2099.65
Oklahoma	117.69	1.42	6.24	162.60	–3.66	284.29
Oregon	161.98	1.63	11.61	399.37	–5.32	569.28
Pennsylvania	438.89	39.25	11.91	1754.08	–120.56	2123.57
Rhode Island	25.74	0.29	0.00	277.01	3.87	306.92
South Carolina	124.20	0.20	1.19	131.93	–12.28	245.22
South Dakota	18.24	–1.40	0.00	1971.21	–0.50	1987.55
Tennessee	222.87	0.87	94.39	566.28	–8.30	876.11
Texas	950.33	22.15	15.60	1524.61	–49.61	2463.08
Utah	69.12	0.00	–2.32	158.79	–1.98	223.61
Vermont	8.80	0.05	0.00	17.64	–1.06	25.43
Virginia	171.90	0.33	–0.66	332.01	–27.45	476.12
Washington	226 93	12.42	10.53	395.78	–3.44	642.22
West Virginia	36.24	0.00	0.00	79.24	–3.22	112.25
Wisconsin	103.94	2.92	0.20	320.22	–31.19	396 09
Wyoming	8.59	0.01	0.00	12.20	–4.03	16.77

Note Preliminary year-to-date data Zeros indicate amounts of less than $500,000.

Interest expense of national banks, by state, December 31, 1994
(Dollar amounts in millions)

	Interest on deposits	*Expense of federal funds transactions*	*Interest on Treasury demand notes and other borrowed money*	*Interest on mortgage and capitalized leases*	*Interest on subordinated notes and debentures*	*Total interest expense*
All national banks	$45,619	$7,566	$10,705	$93	$1,592	$65,576
Alabama	274	54	32	0	3	363
Alaska	65	18	0	0	0	83
Arizona	432	40	152	1	15	640
Arkansas	306	11	6	0	0	323
California	3,724	260	497	12	269	4,762
Colorado	441	73	2	2	2	521
Connecticut	385	213	44	1	1	644
Delaware	390	82	516	3	36	1,027
District of Columbia	163	24	3	0	1	191
Florida	1,896	387	46	3	13	2,345
Georgia	1,011	465	71	2	39	1,586
Hawaii	6	0	0	0	0	6
Idaho	105	30	9	0	2	146
Illinois	2,186	319	201	23	109	2,837
Indiana	904	189	66	0	0	1,159
Iowa	317	67	54	1	2	440
Kansas	360	38	20	0	0	418
Kentucky	477	104	21	0	4	606
Louisiana	498	55	14	0	0	567
Maine	46	4	3	0	0	53
Maryland	1,097	234	53	2	21	1,406
Massachusetts	1,334	267	880	1	47	2,530
Michigan	1,170	187	195	2	37	1,591
Minnesota	678	215	122	2	8	1,024
Mississippi	242	46	5	0	0	292
Missouri	695	187	69	4	5	961
Montana	71	7	0	0	1	80
Nebraska	386	26	7	2	7	428
Nevada	86	22	228	0	0	337
New Hampshire	75	20	18	0	0	112
New Jersey	884	78	15	1	16	995
New Mexico	200	29	7	0	0	236
New York	11,758	677	5,239	9	577	18,260
North Carolina	1,353	640	547	4	58	2,601
North Dakota	90	4	2	0	1	98
Ohio	2,147	495	327	4	102	3,075
Oklahoma	452	53	19	0	1	525
Oregon	268	55	47	1	6	377
Pennsylvania	2,052	435	569	1	77	3,135
Rhode Island	237	57	49	0	5	349
South Carolina	416	193	17	0	7	633
South Dakota	238	76	214	0	7	535
Tennessee	857	146	57	1	8	1,069
Texas	2,532	498	129	3	56	3,218
Utah	204	89	26	0	4	323
Vermont	54	5	4	0	0	64
Virginia	788	127	40	1	14	970
Washington	416	82	24	3	19	545
West Virginia	281	30	10	0	0	321
Wisconsin	530	142	27	1	11	712
Wyoming	45	10	0	0	0	55

Note: Preliminary year-to-date data. Zeros indicate amounts of less than $500,000.

Noninterest and other expense of national banks, by state, December 31, 1994
(Dollar amounts in millions)

	Provision for loan and lease losses	Provision for allocated transfer risk	Salaries and employee benefits	Expenses of premises and fixed assets	Applicable income taxes	Other noninterest expense	Total noninterest and other expense
All national banks	$5,559	–$10	$34,640	$11,057	$13,250	$38,319	$102,815
Alabama	31	0	185	45	72	145	477
Alaska	3	0	83	25	28	44	183
Arizona	277	0	458	129	132	655	1,651
Arkansas	7	0	192	58	83	183	523
California	374	0	4,093	1,488	1,926	3,296	11,177
Colorado	–11	0	424	123	164	602	1,302
Connecticut	13	0	405	132	159	462	1,171
Delaware	665	0	735	178	645	2,035	4,258
District of Columbia	–2	0	131	50	32	175	387
Florida	195	–6	1,179	483	728	1,679	4,257
Georgia	188	–0	687	221	309	1,090	2,495
Hawaii	1	0	8	4	1	5	18
Idaho	13	0	63	17	33	99	226
Illinois	163	0	1,391	458	431	1,113	3,557
Indiana	81	0	572	176	265	637	1,731
Iowa	63	0	225	69	119	294	769
Kansas	9	0	221	59	91	236	616
Kentucky	35	0	285	90	98	323	831
Louisiana	–64	0	442	127	120	398	1,022
Maine	–21	0	33	10	5	30	57
Maryland	–39	0	899	306	446	989	2,601
Massachusetts	120	0	987	300	429	945	2,782
Michigan	125	0	851	232	300	719	2,228
Minnesota	27	0	666	202	310	999	2,204
Mississippi	10	0	175	49	68	143	445
Missouri	31	0	516	138	232	498	1,414
Montana	16	0	54	18	27	90	205
Nebraska	53	0	247	81	112	285	778
Nevada	161	0	146	36	452	807	1,602
New Hampshire	55	0	11	3	65	295	430
New Jersey	184	0	719	249	157	846	2,155
New Mexico	10	0	159	52	57	154	432
New York	1,560	0	6,481	2,001	881	5,346	16,270
North Carolina	49	0	1,052	313	320	984	2,718
North Dakota	6	0	54	16	23	51	150
Ohio	296	0	1,529	439	748	2,532	5,544
Oklahoma	18	0	318	90	79	301	805
Oregon	–12	0	406	116	191	394	1,096
Pennsylvania	117	0	1,963	667	659	1,738	5,145
Rhode Island	–10	0	190	42	131	164	517
South Carolina	–26	0	263	95	144	388	864
South Dakota	409	0	211	48	386	1,491	2,545
Tennessee	33	0	703	184	234	717	1,871
Texas	167	–3	2,358	815	616	1,991	5,943
Utah	3	0	183	41	77	259	562
Vermont	6	0	35	12	8	38	99
Virginia	58	0	535	222	143	492	1,450
Washington	62	0	516	174	247	561	1,561
West Virginia	18	0	169	47	88	161	483
Wisconsin	32	0	404	118	160	407	1,122
Wyoming	–1	0	30	8	17	31	85

Note: Preliminary year-to-date data. Zeros indicate amounts of less than $500,000.

*Value of securities not in trading account at domestic offices of national banks, by state, December 31, 1994**
(Dollar amounts in millions)

	U.S. Treasury securities	U.S. government issued or guaranteed certificates of participation	Other U.S. government agency and corporation obligators	Securities issued by states and political subdivisions in the U.S.	Other domestic debt securities	Foreign debt securities	Equity securities
All national banks	$118,227	$97,196	$103,304	$33,491	$29,061	$1,009	$7,805
Alabama	554	491	1,553	446	60	10	27
Alaska	818	35	341	211	201	0	14
Arizona	1,389	1,368	2,053	110	792	1	44
Arkansas	1,465	432	1,803	714	110	0	45
California	3,420	6,547	5,471	680	2,802	60	506
Colorado	1,464	2,971	1,148	428	386	0	67
Connecticut	1,790	4,099	183	21	1,369	6	87
Delaware	967	70	547	25	476	1	44
District of Columbia	808	669	561	29	454	0	29
Florida	7,693	2,829	4,508	1,273	1,665	37	370
Georgia	5,016	2,478	1,470	1,271	508	67	185
Hawaii	33	0	13	1	0	0	2
Idaho	173	66	193	37	20	0	26
Illinois	5,705	3,187	6,779	3,203	1,330	17	349
Indiana	846	3,349	2,451	1,180	488	2	136
Iowa	965	1,834	895	617	123	0	95
Kansas	1,482	1,072	2,191	657	111	2	76
Kentucky	1,418	463	1,218	843	204	0	89
Louisiana	3,855	2,656	2,485	309	165	3	113
Maine	176	79	96	16	25	0	16
Maryland	5,503	2,650	4,686	1,048	1,189	8	195
Massachusetts	2,750	3,457	1,975	90	1,068	94	292
Michigan	1,722	6,841	3,479	1,299	575	52	124
Minnesota	1,651	3,000	928	802	349	5	183
Mississippi	1,057	255	1,764	636	107	1	29
Missouri	4,018	1,570	2,880	873	818	3	71
Montana	104	478	106	63	12	1	11
Nebraska	1,393	510	977	639	45	0	67
Nevada	471	466	546	10	213	0	22
New Hampshire	89	62	45	6	7	0	15
New Jersey	5,754	3,599	1,896	803	390	40	157
New Mexico	619	1,166	1,090	245	69	0	30
New York	6,876	3,038	3,259	3,088	972	342	1,797
North Carolina	10,146	1,171	577	1,090	310	1	97
North Dakota	133	387	233	62	3	0	19
Ohio	3,478	5,206	7,143	1,833	2,267	19	306
Oklahoma	2,560	1,268	2,591	811	176	1	133
Oregon	495	452	576	264	51	0	20
Pennsylvania	4,506	6,767	11,996	1,710	4,066	85	564
Rhode Island	841	1,191	0	12	33	4	50
South Carolina	2,069	1,040	1,232	280	8	3	52
South Dakota	201	805	114	131	53	0	43
Tennessee	2,824	1,628	4,209	929	220	3	166
Texas	12,893	10,242	9,717	1,958	2,495	69	367
Utah	440	249	1,033	259	92	0	210
Vermont	108	126	125	25	4	0	18
Virginia	2,572	2,623	1,368	480	1,327	65	127
Washington	299	238	308	226	68	0	123
West Virginia	782	385	1,450	519	301	0	63
Wisconsin	1,517	1,231	859	1,160	404	8	121
Wyoming	317	401	182	70	80	0	10

*Beginning in 1994, securities classified by banks as "held-to-maturity" are valued at their amortized cost, and securities classified as "available-for-sale" are valued at their current fair value.

Note: Preliminary end-of-quarter data. Zeros indicate amounts of less than $500,000.

Off-balance sheet items, by state, December 31, 1994
(Dollar amounts in millions)

	Unused commitments	Letters of credit	Securities lent	Mortgages transferred to FNMA and FHLMC with recourse	Notional value of swap contracts	When-issued securities and futures and forward contracts	Written and purchased options contracts
All national banks	$1,141,821	$102,115	$21,695	$5,372	$1,800,504	$4,277,816	$1,343,078
Alabama	3,198	379	75	0	779	31	5
Alaska	681	10	0	0	291	29	0
Arizona	50,438	340	196	7	5,796	3	411
Arkansas	1,487	80	0	0	0	7	0
California	83,017	16,377	6,970	70	369,040	846,511	125,142
Colorado	10,073	360	278	0	2,739	28	302
Connecticut	9,982	1,177	0	125	6,624	9,822	2,090
Delaware	189,886	1	0	0	8,824	104	2,911
District of Columbia	986	78	0	0	468	41	846
Florida	29,158	2,138	71	22	7,721	146	8,833
Georgia	43,935	3,334	6	62	10,394	787	4,017
Hawaii	73	4	0	0	0	0	0
Idaho	1,434	37	0	0	835	4,213	1,270
Illinois	49,075	4,697	34	16	173,772	339,151	122,834
Indiana	15,816	1,247	112	9	6,130	467	1,370
Iowa	8,484	210	331	0	299	4	33
Kansas	3,516	125	5	41	151	16	0
Kentucky	3,410	399	4	22	1,724	0	165
Louisiana	5,092	278	74	24	757	7	821
Maine	404	14	0	0	160	1	92
Maryland	13,182	1,802	1,280	153	11,213	1,902	1,222
Massachusetts	26,941	3,225	4	58	21,715	64,114	29,796
Michigan	23,858	1,796	138	98	6,159	3,965	634
Minnesota	15,010	1,654	529	57	3,717	3,579	2,286
Mississippi	1,456	114	191	0	370	76	275
Missouri	10,958	981	428	0	4,098	1,774	535
Montana	1,124	41	28	0	50	0	0
Nebraska	10,572	139	5	0	285	5	0
Nevada	23,779	58	0	0	5,559	10,200	9,920
New Hampshire	6,869	2	0	0	633	0	306
New Jersey	7,104	747	0	0	8,439	842	4,502
New Mexico	1,105	53	51	4	316	2,205	1,521
New York	118,912	35,583	3,129	3,348	855,596	2,759,085	664,318
North Carolina	38,744	4,491	0	28	96,224	165,944	301,550
North Dakota	738	18	15	0	0	0	0
Ohio	85,601	3,542	72	58	61,689	2,051	18,748
Oklahoma	2,958	304	0	20	281	58	0
Oregon	14,148	442	0	0	2,453	1,165	109
Pennsylvania	38,824	7,327	2,327	299	48,262	17,632	13,601
Rhode Island	3,933	253	0	0	14,077	407	244
South Carolina	5,087	311	40	80	846	45	25
South Dakota	93,833	47	72	0	5,710	10,200	8,380
Tennessee	11,320	1,236	185	623	4,377	1,339	291
Texas	37,448	3,333	4,742	66	22,748	1,018	4,271
Utah	3,375	207	0	3	1,112	7,053	3,442
Vermont	440	28	0	0	5	2	10
Virginia	8,574	1,122	19	21	5,819	9	2,787
Washington	15,688	1,235	18	0	12,418	21,649	314
West Virginia	1,400	79	75	0	1,155	0	200
Wisconsin	8,513	647	185	59	8,677	126	2,649
Wyoming	179	13	5	0	0	0	0

Swap, futures and forward, and option contracts include interest rate, foreign exchange, and commodities and equities contracts
Note: Preliminary end-of-quarter data. Zeros indicate amounts of less than $500,000.

Outstanding balances, credit cards and related plans, by state, December 31, 1994
(Dollar amounts in thousands)

	Total number of national banks	Credit cards and other related credit plans: Number of national banks	Credit cards and other related credit plans: Outstanding volume
All national banks	3,078	2,030	$112,681,723
Alabama	48	30	240,079
Alaska	4	3	68,789
Arizona	13	11	8,423,527
Arkansas	76	33	224,034
California	128	117	5,166,599
Colorado	130	113	1,670,092
Connecticut	12	10	42,171
Delaware	16	16	25,300,877
District of Columbia	15	12	62,182
Florida	118	69	4,643,419
Georgia	69	55	4,756,781
Hawaii	2	2	3,444
Idaho	6	6	149,337
Illinois	258	162	1,726,801
Indiana	61	56	1,567,987
Iowa	76	54	2,072,036
Kansas	130	46	611,693
Kentucky	75	50	260,428
Louisiana	36	22	620,068
Maine	6	6	30,393
Maryland	22	19	979,571
Massachusetts	21	17	244,181
Michigan	46	35	1,484,943
Minnesota	135	108	1,338,553
Mississippi	24	12	109,661
Missouri	60	42	753,267
Montana	31	24	200,153
Nebraska	102	55	1,849,560
Nevada	7	5	11,302,570
New Hampshire	7	5	1,790,827
New Jersey	36	31	222,104
New Mexico	30	21	75,251
New York	70	50	6,844,288
North Carolina	14	13	411,252
North Dakota	26	22	91,430
Ohio	122	99	7,575,793
Oklahoma	124	62	181,412
Oregon	6	6	1,591,358
Pennsylvania	128	86	1,171,320
Rhode Island	2	2	64,273
South Carolina	23	23	208,976
South Dakota	21	14	9,850,041
Tennessee	46	27	1,017,286
Texas	478	202	1,073,793
Utah	8	8	252,687
Vermont	9	6	67,814
Virginia	33	23	1,134,523
Washington	20	19	2,194,314
West Virginia	44	22	124,078
Wisconsin	84	80	818,390
Wyoming	20	19	17,317

Note: Preliminary end-of-quarter data.

Consolidated foreign and domestic loans and leases past due at national banks, by state, December 31, 1994
(Dollar amounts in millions)

	Number of banks	Type of loan						
		All real estate	Commercial and industrial*	Personal†	Leases	Other loans‡	Total loans	To non-U.S. addresses
All national banks	3,078	$8,549	$3,313	$7,168	$186	$436	$19,651	$879
Alabama	48	50	10	35	1	0	96	0
Alaska	4	18	12	8	0	2	39	0
Arizona	13	50	18	283	3	2	356	0
Arkansas	76	48	20	28	0	1	96	0
California	128	1,267	330	270	5	58	1,930	15
Colorado	130	70	57	44	2	2	175	0
Connecticut	12	144	21	35	0	6	206	0
Delaware	16	5	5	721	0	1	733	0
District of Columbia	15	25	5	4	0	10	44	4
Florida	118	564	68	252	0	6	890	2
Georgia	69	139	143	123	4	8	417	0
Hawaii	2	2	3	0	0	0	4	0
Idaho	6	22	5	25	1	1	54	0
Illinois	258	360	168	191	1	9	729	0
Indiana	61	153	86	201	8	12	460	0
Iowa	76	28	22	92	0	2	145	0
Kansas	130	52	33	36	1	2	125	0
Kentucky	75	97	41	70	3	2	214	0
Louisiana	36	58	24	86	0	1	169	0
Maine	6	15	3	3	0	0	21	0
Maryland	22	547	176	114	22	29	888	1
Massachusetts	21	251	40	78	10	5	385	8
Michigan	46	182	83	155	3	7	430	0
Minnesota	135	126	71	62	2	8	268	0
Mississippi	24	26	14	25	0	2	67	0
Missouri	60	101	68	65	0	3	237	0
Montana	31	9	12	14	0	2	37	0
Nebraska	102	21	25	73	0	6	125	0
Nevada	7	14	3	457	0	0	474	0
New Hampshire	7	15	2	52	0	0	68	0
New Jersey	36	372	154	93	1	8	628	0
New Mexico	30	38	11	28	0	1	79	0
New York	70	1,386	694	1,241	66	97	3,485	839
North Carolina	14	221	59	34	5	15	334	1
North Dakota	26	10	12	10	0	1	33	0
Ohio	122	332	103	582	12	7	1,035	0
Oklahoma	124	74	39	36	0	9	159	0
Oregon	6	33	11	47	6	2	99	0
Pennsylvania	128	562	204	299	6	54	1,124	0
Rhode Island	2	54	12	17	9	3	95	0
South Carolina	23	83	21	36	0	3	143	0
South Dakota	21	12	45	443	0	6	506	0
Tennessee	46	115	31	90	3	1	240	0
Texas	478	428	180	248	1	17	875	9
Utah	8	28	17	30	1	2	77	0
Vermont	9	15	3	4	0	0	22	0
Virginia	33	99	19	93	0	2	212	0
Washington	20	64	42	105	2	14	227	0
West Virginia	44	74	27	55	0	0	156	0
Wisconsin	84	88	56	69	3	6	221	0
Wyoming	20	4	6	5	0	0	15	0

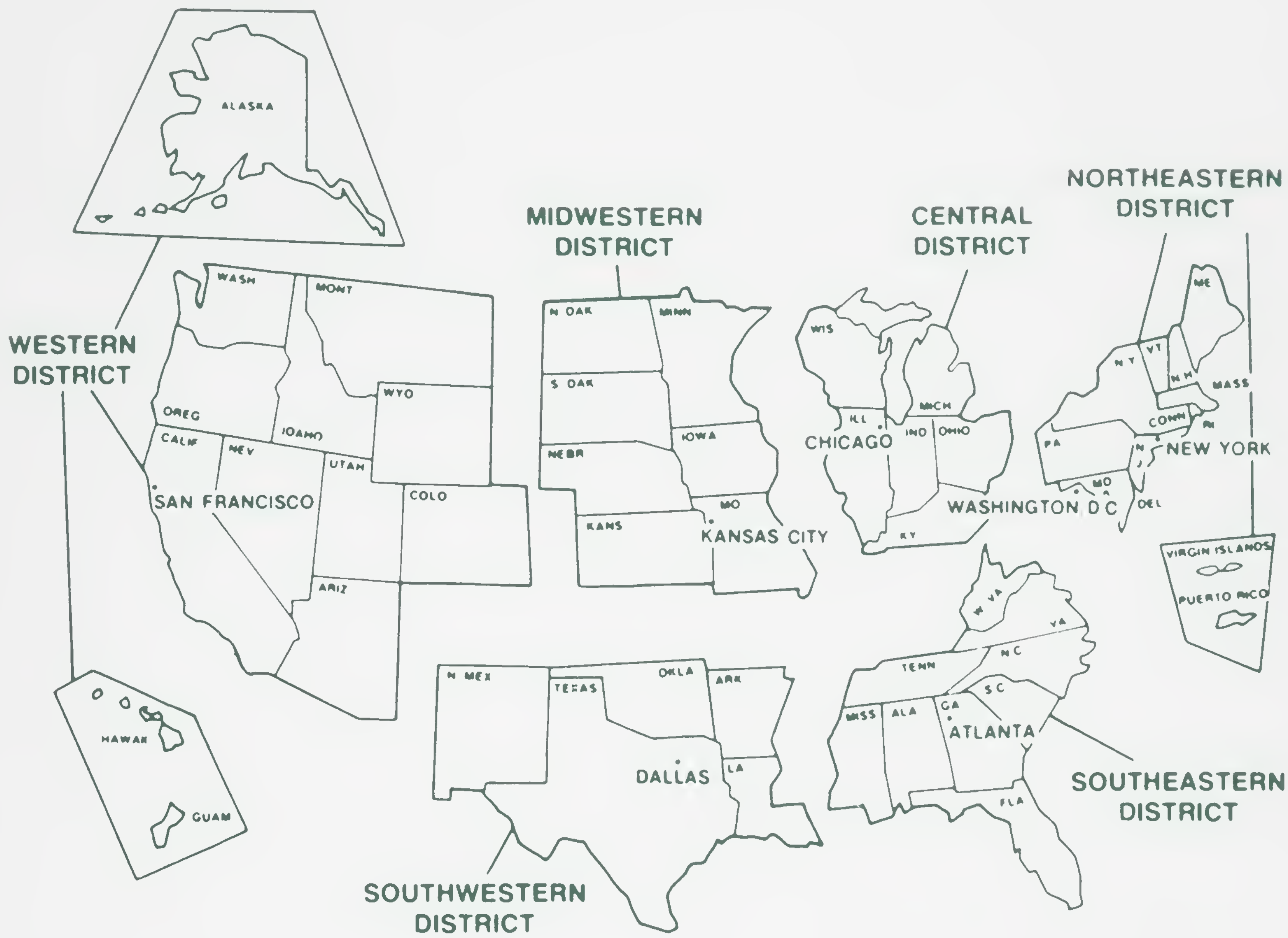
*For banks with assets of less than $300 million, this category captures commercial (time and demand) and all other loans.
†For banks with assets of less than $300 million, this category captures installment loans and credit cards and related plans.
‡Does not include banks with assets of less than $300 million

*Percent of loans past due, by asset size of national banks, December 31, 1994**

	Less than $300M	*$300M to $1B*	*$1B to $10B*	*Greater than $10B*	*All national banks*
Real estate					
March 1994	1.81	1.50	1.79	2.11	1.90
June 1994	1.45	1.21	1.54	1.76	1.58
September 1994	1.39	1.15	1.46	1.60	1.47
December 1994	1.48	1.23	1.26	1.75	1.52
Commercial and industrial†					
March 1994	3.71	2.27	1.32	0.67	1.02
June 1994	3.06	2.00	1.30	0.56	0.91
September 1994	2.90	1.91	1.08	0.64	0.89
December 1994	2.94	1.66	0.90	0.75	0.90
Personal‡					
March 1994	2.28	1.89	2.77	2.44	2.49
June 1994	2.13	1.98	2.32	2.28	2.25
September 1994	2.18	1.81	2.47	2.37	2.33
December 1994	2.36	1.98	2.47	2.57	2.44
Leases					
March 1994	0.79	0.80	0.73	0.46	0.54
June 1994	0.59	0.60	0.60	0.81	0.75
September 1994	0.86	0.49	0.54	0.68	0.64
December 1994	0.91	0.62	0.61	0.60	0.60
Other loans					
March 1994	N/M	0.43	1.06	0.41	0.50
June 1994	N/M	0.33	0.84	0.56	0.57
September 1994	0.00	0.31	0.83	0.45	0.48
December 1994	0.00	0.25	0.58	0.31	0.34
Total loans					
March 1994	2.02	1.66	1.91	1.42	1.61
June 1994	1.67	1.48	1.66	1.26	1.42
September 1994	1.61	1.38	1.64	1.23	1.39
December 1994	1.70	1.42	1.53	1.35	1.42

*Past due loans in each category are stated as a percentage of loans outstanding of that type.
†For banks with assets of less than $300 million, this category captures commercial (time and demand) and all other loans.
‡For banks with assets of less than $300 million, this category captures installment loans and credit cards and related plans.
Note: Preliminary end-of-quarter data.
N/M = Not meaningful.

Index



Northeastern District

New York District Office
1114 Avenue of the Americas
Suite 3900
New York, NY 10036-7780

(212) 819-9860

Central District

Chicago District Office
One Financial Place
Suite 2700
440 South LaSalle Street
Chicago, IL 60605-1073

(312) 663-8000

Southwestern District

Dallas District Office
1600 Lincoln Plaza
500 North Akard
Dallas, TX 75201-3394

(214) 720-0656

Southeastern District

Atlanta District Office
Marquis One Tower
Suite 600
245 Peachtree Center Ave., N E.
Atlanta, GA 30303-1223

(404) 659-8855

Midwestern District

Kansas City District Office
2345 Grand Avenue
Suite 700
Kansas City, MO 64108-2683

(816) 556-1800

Western District

San Francisco District Office
50 Fremont Street
Suite 3900
San Francisco, CA 94105-2292

(415) 545-5900

Special Fourth Class Rate
Postage and Fees Paid by
Comptroller of the Currency
Permit No. G-8

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

OFFICIAL BUSINESS
Penalty for Private Use $300